THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

Member of Audit Bureau of Circulations

Volume 70, No. 10 — August 22, 1942

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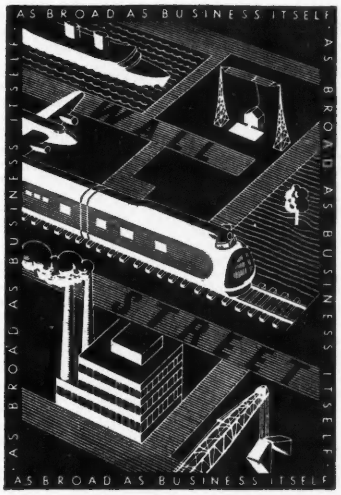
TO CHANGE ADDRESS—Write us your name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to the new address.

EUROPEAN REPRESENTATIVES—International News Co., Ltd., Breams Bldg., London, E. C. 4, England.

Cable Address—Tickerpub.

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* Laurence Stern, *Managing Editor*



The Trend of Events

WAR LEADERSHIP . . . The recent report on our war effort made by Elmer Davis marks a very great improvement in the Government's handling of such information. It was simple, devoid of sugar-coating and perhaps as candid as one could expect, considering the requirements of military secrecy and other inhibitions to which Mr. Davis is subject. Also worth noting is the fact that the Navy promptly released information on warship losses in the Solomon Islands attack, a distinct deviation from former practice.

A first requirement of effective war leadership in a democracy is that all possible information—the bad as well as the good—be given to the public. In this respect our leadership is certainly improving, and winning increased public confidence thereby. Heretofore, with due allowance for the real needs of military secrecy, it has been impossible to escape a feeling that the information policy was far from sufficiently candid.

But there is one note in the summary by Mr. Davis, as well as also in the continuing statements by most Government officials, to which we take exception. This is the chronic harping on the complacency of the public. By some strange process of reasoning, the shortcomings or inadequacies of our war effort are inferentially blamed on the people. This is ridiculous. From the start—as conclusively proven by a long series of public opinion polls, as well as by various other manifestations—the public has been well ahead of the Government in its grim awareness of what needed to be done and in its willingness to accept any sacrifices essential to getting essential things done.

Many of us can have no part in the war except as taxpayers, bond buyers and loyal citizens. Not being subsidized, we naturally go on tending to our affairs and supporting our families. We see no point in wringing our hands or wearing sackcloth and ashes. If we can make a more positive contribution to the common cause, let the Government tell us what it is. The most serious weakness in our war effort centers in the leadership at Washington. There has not been and will not be any absence of public support for, and cooperation with, that leadership. The biggest need is still wiser, bolder, franker, more efficient—and less political—leadership.

LABOR . . . It is an interesting and ironical fact that the chairman of the War Labor Board favors organization of employers in order that their position in collective bargaining may be more equalized with that of union labor. Certainly this is the height of something or other. First give labor unions too great powers by law—without

Business, Financial *and* Investment Counselors · 1907—*"Over Thirty-Four Years of Service"*—1942

imposing proportionate responsibility—then look to partial correction of the resulting abuses by suggesting what amounts to a sort of unionization of the employers!

Whether the employers could organize for collective bargaining without risk of running afoul of the anti-trust laws or the Wagner Act or both is open to question. Anyway, that is not an adequate remedy. It was Congress which granted labor unions the privileges and powers they are abusing. Congress can at any time rescind some of those privileges or subject them to proper restrictions and safeguards. And Congress can at any time make the anti-trust laws applicable to labor unions, some of whose practices—as pointed out repeatedly by Assistant Attorney General Arnold—are notoriously "in restraint of trade." You know the answer. It's partly political cowardice. More to the point, it is also because any group which might initiate corrective legislation knows in advance that the whole great power of the Administration will be arrayed against it to kill or pigeon-hole any bill which steps on the toe of the sacred cow of Labor. As long as this is true, any such effort would be foredoomed to failure.

Well, there it is and it still will go on. We continue to have wage strikes and jurisdictional strikes in defense plants. Not many and not for long—but enough to show that the unions persist in using the strike weapon or threat as a means of getting special advantage out of the war effort. Wages continue to be "stabilized up"—meaning no stabilization—adding more fuel to the inflation fires. Meanwhile, price ceilings begin to weaken. In the near future ceilings on foods will be lifted, which means more rise in the cost of living and still more wage demands. It's a sorry picture—helping not at all in winning the war.

TAX PROSPECTS . . . The Senate Finance Committee, like the House Ways and Means Committee before it, has turned thumbs down on Treasury proposals to tax the income on presently tax-exempt bonds of States and municipalities, to reduce depletion tax allowances for enterprises in the oil and mining industries, and to make mandatory joint income tax returns of husbands and wives.

For two years now the Treasury has been fighting for these controversial changes, throughout which long period it has been quite clear that Congress would not accept them. Meanwhile both the Treasury "experts" and the tax-framing committees of Congress have wasted on such matters a great deal of time and energy that might better have been expended in devising a non-political tax program realistically geared to the needs of both revenue and inflation control.

The time has come to get down to brass tacks. It is perfectly apparent that the old political game of putting the lowest possible taxes on the mass of voters and the highest possible taxes on the corporations has been played to its limit. No conceivable level of corporate taxation could come anywhere near meeting the needs of revenue or have any significant bearing on inflation—and meanwhile the corporate rates now proposed are so high that they dangerously approach, if they have not passed, the point at which corporate enterprise can either operate with maximum efficiency or avoid very real threat of eventual insolvency.

Also it is high time for the Government to approach the problem of corporate taxes with regard not only for current revenue but for the long-pull taxes that only efficient, solvent private enterprises can provide. Undoubtedly, the Government favors retention of our private enterprise system—in a general, academic kind of way. But does it favor it in a sufficiently positive way to realize that the goose must be permitted to have a sufficiently healthy diet of profits and dividends if it is to go on producing the golden eggs? We don't know of any better or more efficient producing system—or one more worth preserving.

PAY-AS-WE-GO PLAN . . . Beardsley Ruml, chairman of the Federal Reserve Bank of New York, has proposed a novel change in the Government's personal income tax system which certainly will appeal to the common sense of the people who have to pay the taxes. The Treasury is reported to be "very much interested." We certainly hope its alleged interest leads to action. If it does, however, it will be the first time the Treasruy has ever adopted a major tax innovation that did not originate out of the imaginations or pet theories of its own assorted experts.

Mr. Ruml's proposal is to put the income taxes on a pay as one goes basis. Under the present system, taxpayers are always a year behind in their tax debt to the Government—the payments they make this year being based on the previous year's income. Very few taxpayers budget, out of current income, the tax payments that will be due in the following year. As a result, various hazards are involved. A man may have a good income in one year—and have to make heavy tax payments in the following year out of a reduced income. He might lose his job and have no income at all, with a formidable debt to the Treasury hanging over his head. Each year death cuts off the income of thousands of family heads, leaving dependents to find, if they can, the money to pay taxes on the preceding year's income of the deceased.

The Ruml plan is to move the tax clock a year ahead. Our tax payments this year would apply to 1942 income, not 1941 income. One disadvantage is that this would favor those who had exceptionally high incomes in 1941. Certain adjustments in the initial year would be necessary. Those with larger incomes than in the preceding year would have to pay additional amounts to the Treasury; those with smaller incomes would be entitled to a refund. After the first year of application, no such adjustments would be required.

On the whole, this appeals to us as by far the simplest and fairest method of shifting income tax collections to a current-year income basis. It is up to the Treasury or Congress to solve the technical problems which are involved.

As I See It!

BY CHARLES BENEDICT

NEXT MOVE IN THE PACIFIC

There is much conjecture today about Japan's next move, the consensus seeming to be that Japan has been getting ready to attack Siberia and will do so when the Nazis break through into the Near East—if they do. And yet a careful weighing of the various factors leads one to believe it to be most unlikely that Japan will make such a move. It would mean the taking of an unnecessary risk that would not be to her advantage.

Let us analyze the situation.

In the first place Japan has practically realized all her objectives in the Pacific—she is much stronger than she was six month ago, both materially and politically. Thoroughly realistic, she is more likely to cash in on her winnings than extend herself further. At the moment Japan has nothing to fear from Stalin, heavily engaged with the German war machine. The likelihood would even be less if Stalin suffers a crushing defeat. Under these circumstances Russia would be interested more than ever in preserving peace in Siberia.

This would become increasingly true if Germany wins, for then Russia would be shut off from the stream of materials reaching her through the Persian Gulf—making an attack against Japan highly undesirable. Thus, regardless of what transpires, Japan knows that Stalin is not strong enough to challenge her from Siberia.

On the other hand, judging from their recent renewal of diplomatic relations, Japan is evidently convinced that it is more desirable for her to be at peace with Russia than at war with her. For to attack Stalin would surely bring on a bombardment of the Japanese islands in which both Russia and the United Nations would take part—the very thing she would like to avoid. Realistically therefore, Japan has checkmated Russia, preparing herself against the element of surprise by maintaining a sizeable army on the Siberian front and by establishing herself in the Aleutian Islands as a springboard to Kamchatka and a jumping off place for offensive and defensive action against Alaska and the United States whose growing strength she has great reason to fear.

Almost simultaneously as a part of her plan to build bulwarks against attack by the United States, she moved closer to Australia and the South Pacific to checkmate and prevent interference with her next campaign. By these maneuvers Japan sought to place herself in a position to concentrate on the great prize of the Orient—India, with its great resources and wealth,—compared to which Russia has only a strategic value. Russia can be dealt with at another time when Japan is free to take the risk of that unknown quantity which Russia still continues to be.

Japan could not possibly afford to be tied up in Siberia at this time of the year (*Please turn to page 520*)

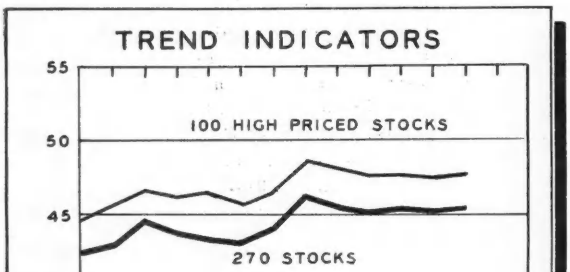
Vladivostok, Siberia. Careful weighing of the various factors makes it seem most unlikely Japan will attack Siberia. *(Press Assn. Photo)*

Gauging the Market's Next Move

Light as it is, demand for stocks continues to outweigh liquidating pressure. Improvement in the war news probably would induce a broader advance. Otherwise, we look for a selective, trading range market.

BY A. T. MILLER

THE evidence continues to suggest that this is a selective uptrend market. Over the past two weeks an average of a dozen or so issues per day have made new highs for the year or longer, greatly exceeding average number of issues making new lows. While the majority of stocks have moved scarcely at all either way, their notable resistance to dividend reductions, tax fears and gloomy war news indicates beyond much doubt that they are in a technical position to respond favorably either to such better news as the future will bring or to any general strengthening of investment and speculative confidence in the prospect.



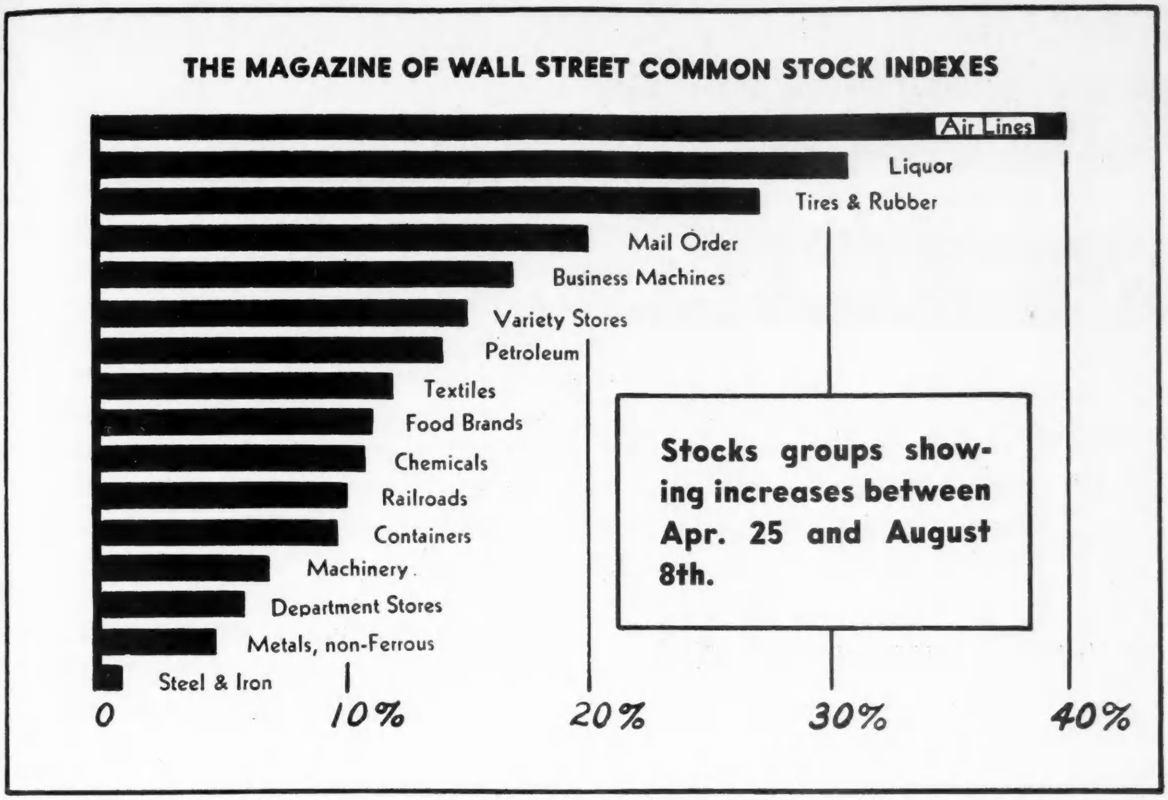
Thus far the technical pattern of the intermediate recovery trend in the averages, which began in late April and which conceivably may prove to have been the initial phase of something more significant than a lengthy interlude in a bear market, is unbroken.

At this writing, for approximately four weeks—or ever since the rally high of 108.91 (Dow-Jones industrials) was made—the market has been on the defensive, technically speaking. In the minds of many there was a valid question as to whether the recovery had not topped out, as was the case in July of last year with an intermediate rise of generally similar proportions. With the industrial average first reacting moderately on light volume and then drifting almost sidewise, naturally it was the apparent downside resistance levels—especially the June closing low around 102.50—to which eyes of all analysts were geared. But that level, relatively speaking, was not even closely approached. Lowest close, made Saturday, August 8, was 104.9. Throughout last week, persistent, small advance was the rule, with modest acceleration in gains and volume toward the weekend. Today this average is again closer to its July high than to its June low.

As a significant individual example of resistance to bad news by a key stock, take the recent case of Chrysler. It had previously had a maximum advance of 20 points this year from low of 43⅞ to high of 63⅞. On August 11 it closed at 61¾. Overnight came announcement of a reduction in the quarterly dividend rate from $1 to 75 cents. This had not been expected. Yet the maximum decline was only to 59½ and within three days the issue was back up to 61.

And while we are, for the moment, on the subject of Chrysler, it is worth noting that this example is very interesting from another angle. You no doubt recall the widespread predictions that the war-work earnings of the leading auto companies would be greatly reduced not only by high taxes but also by curtailed operating profit margins. Quite aside from taxes, there just would not be the profits on war contracts that there used to be on sale of automobiles. Well, of course, this is true—but apparently not nearly as much so as had been preconceived.

Due to the problem of converting facilities to war work, Chrysler's dollar volume in the first half year was only a bit more than half the peace volume of the first half of the preceding year. Yet the profit, before taxes,



on this low volume amounted to just a shade under 7 per cent, as compared with 7.7 per cent on the automobile business of the first half of 1941. The ratio of *net profit* to sales was 3.38 per cent, against 4.13 per cent in the first half of last year. War volume is rising sharply. Probably dollar sales for the second half year will compare favorably with best previous half-year figures of automotive sales. In that case it is not hard to imagine that difference between 7 per cent operating profit margin in the first half and 7.7 per cent in the first half of 1941 will be made up.

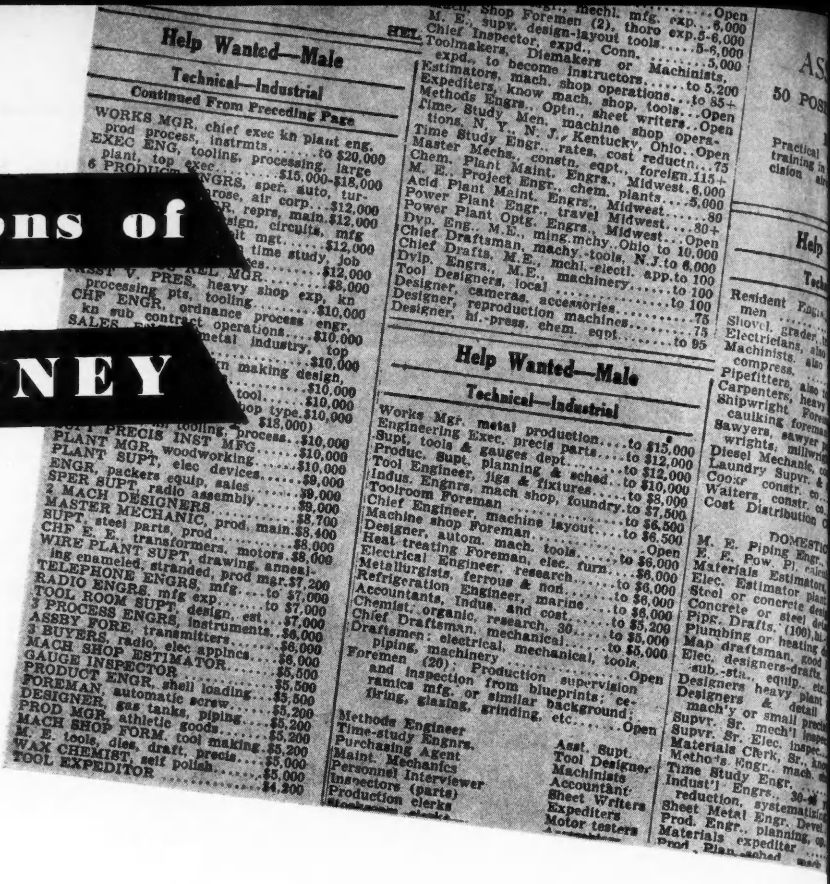
Exceptional or not, the example supports our previously expressed thesis that earnings of a great many companies, under the maximum taxes in prospect for this year, are going to be at least reasonably good—and especially so in relation to prevailing low average stock prices. Moreover, at least some stocks will almost certainly earn more per share this year than last, despite higher taxes. A few of the likely candidates are Simmons, Western Union, Climax, Molybdenum, National Cash Register, Commercial Solvents, Standard Oil of California and Campbell, Wynant & Cannon.

Despite the pall of uncertainly hanging over all of us, we see a current distinct, even if modest, revival in the search of idle funds not only for yield but for *speculative* profits. Under other circumstances, activity and rise in low-price stocks could be viewed with distrust. As it is, we are inclined to regard it as encouraging. In the market's recovery up to early July, higher grade stocks set the pace. Since then, with few exceptions, they have been "resting." If this is an uptrend market—and our technical measures thus far continue to point only that way—it may be reasoned, we think, that for the time being we are simply seeing more speculative stocks "take the ball" and thus provide fresh leadership.

For the first time in many months the aircraft stocks have joined the air transport equities in renewed speculative favor. The long laggard steels also show tentative indications of trying to come to life. The same is true of the shipbuilding stocks. The distillers, movies, anthracite coal issues and selective rails push up to new highs.

To name but part of a rather lengthy list, individual issues performing better than average include: Atchison, Borg-Warner, Paramount, Warner Brothers, Columbia Carbon, Holland Furnace, Pan-American, United Air Lines, Eastern Air Lines, National Distillers, Schenley, Amerada Oil, American Can, Chrysler, Anaconda, Erie certificates, Chicago Great Western preferred, Southern Pacific, Pullman, Atlantic Coast Line, Bohn Aluminum, Burlington Mills, National Cash Register, Burroughs Adding Machine, Campbell, Wyant; Chicago and Eastern Illinois "A"; Clark Equipment, Commercial Solvents, Consolidation Coal common and preferred, Continental Oil, Doehler Die Casting, Electric Auto Lite, Food Machinery, Lee Rubber, Firestone, Goodrich and U. S. Rubber, General Electric, General Foods, General Precision Equipment, Montgomery Ward, Greyhound, Masonite, McGraw Electric, Minneapolis Honeywell, National Dairy, Phillips Petroleum, Standard Oil of California, United Carbon, U. S. Gypsum, U. S. Pipe & Foundry, and Western Union.

The low in the market averages is now more than three and a half months behind us. (*Please turn to page 520*)


Help Wanted—Male

Technical—Industrial

Continued From Preceding Page

WORKS MGR. chief exec kn plant eng, prod process, instrmts........to $20,000
EXEC ENG, tooling, processing, large plant, top exec........$15,000-$18,000

ASST V. PRES, heavy shop exp, kn processing pts, tooling........$8,000
CHF ENGR, ordnance process engr, kn sub contract operations........$10,000

SUPT PRECIS INST MFG........$10,000
PLANT MGR, woodworking........$10,000
PLANT SUPT, elec devices........$10,000
ENGR, packers equip, sales........$9,000
SPER SUPT, radio assembly........$9,000
2 MACH DESIGNERS........$9,000
MASTER MECHANIC, prod, main.$8,700
SUPT, steel parts, prod........$8,400
CHF E. E., transformers, motors.$8,000
WIRE PLANT SUPT, drawing, annealing enameled, stranded, prod mgr.$7,200
TELEPHONE ENGRS, mfg....to $7,000
RADIO ENGRS, mfg exp........to $7,000
TOOL ROOM SUPT, design, est...$7,000
3 PROCESS ENGRS, instruments..$6,000
ASSBY FORE, transmitters........$6,000
3 BUYERS, radio, elec applncs....$6,000
MACH SHOP ESTIMATOR........$6,000
GAUGE INSPECTOR........$5,500
PRODUCT ENGR, shell loading....$5,500
FOREMAN, automatic screw........$5,500
DESIGNER, gas tanks, piping......$5,200
PROD MGR, athletic goods........$5,200
MACH SHOP FORM, tool making.$5,200
M. E. tools, dies, draft, precis......$5,000
WAX CHEMIST, self polish........$5,000
TOOL EXPEDITOR........$4,200

Shop Foremen (2), thoro exp..6,000
M. E., supv. design-layout tools.5-6,000
Chief Inspector, expd., Conn.......5-6,000
Toolmakers, Diemakers or Machinists, expd., to become instructors........5,000
Estimators, mach. shop operations....to 5,200
Expediters, know mach. shop, tools....to 85+
Methods Engrs., Optn., sheet writers...Open
Time Study Men, machine shop operations, N. Y., N. J., Kentucky, Ohio..Open
Time Study Engr., rates, cost reductn...75
Master Mechs., constn. eqpt., foreign.115+
Chem. Plant Maint. Engrs., Midwest.6,000
M. E. Project Engr., chem. plants....5,000
Acid Plant Maint. Engrs., Midwest........80
Power Plant Engr., travel Midwest......80+
Power Plant Optg. Engrs., Midwest....Open
Dvp. Eng., M.E., ming.mchy., Ohio to 10,000
Chief Draftsman, machy.-tools, N.J.to 6,000
Chief Drafts, M.E., mchl.-electl. app.to 100
Dvlp. Engrs., M.E., machinery........to 100
Tool Designers, local........to 100
Designer, cameras, accessories........to 100
Designer, reproduction machines........75
Designer, hi.-press. chem. eqpt........to 95

Help Wanted—Male

Technical—Industrial

Works Mgr. metal production....to $15,000
Engineering Exec. precis parts....to $12,000
Supt. tools & gauges dept........to $12,000
Produc. Supt. planning & sched...to $12,000
Tool Engineer, jigs & fixtures......to $10,000
Indus. Engnrs, mach shop, foundry.to $7,500
Toolroom Foreman........to $8,000
Chief Engineer, machine layout......to $6,500
Machine shop Foreman........to $6,500
Designer, autom. mach. tools........Open
Heat-treating Foreman, elec. furn....to $6,000
Electrical Engineer, research........$6,000
Metallurgists, ferrous & non........to $6,000
Refrigeration Engineer, marine......to $6,000
Accountants, Indus. and cost........to $6,000
Chemist, organic, research, 30......to $5,200
Chief Draftsman, mechanical........to $5,000
Draftsmen: electrical, mechanical, tools, piping, machinery........to $5,000
Foremen (20); Production supervision and inspection from blueprints; ceramics mfg. or similar background; firing, glazing, grinding, etc........Open

Methods Engineer
Time-study Engnrs.
Purchasing Agent
Maint. Mechanics
Personnel Interviewer
Inspectors (parts)
Production clerks

Asst. Supt.
Tool Designer
Machinists
Accountant
Sheet Writers
Expediters
Motor testers

$19 Billions of NEW MONEY

Who Is Getting It and What Are They Doing With It?

BY JOHN D. C. WELDON

It is officially estimated at Washington that the total income of the American public this year will approximate 113 billions of dollars. This is nearly 19 billion dollars more than last year, and 42 billion dollars more than in the pre-war year 1939.

That is a veritable flood of new money. How is it being distributed? What classes are getting it? What are they doing with it? These are extremely important questions because the answers have a most significant relationship to: (1) the threat of inflation and what to do about it; (2) the war's alteration of the economic stratification of our society; and (3) the sales prospects of all consumer industries having an adequate volume of goods or services to market.

The writer must acknowledge to begin with that the distribution of national income is, unavoidably, a somewhat controversial and opinionated subject. Available, official studies are contradictory; and there are some important gaps in the income data issued annually and monthly by the Department of Commerce. For these reasons any special pleader can make out a rather plausible case for the preconceived position he is seeking to support. The "liberal" analyst—whom we once quite frankly called a radical or a parlor pink—can "prove" that the upper income classes are getting too much of the wartime income gravy; the upper classes, in this view, meaning those with $5,000 or more a year. At the other extreme, "conservatives," shouting for the sales tax, can "prove" that the bulk of the extra money is going to factory wage workers and farmers in the lower income brackets.

The apparent truth is somewhere in between the above two preconceptions; and commonsense examination of such official statistics as are available will provide at least a reasonably close approximation of the reality.

According to estimates of the Office of Price Administration, in 1941 about 95 per cent of the "consumer units" in the country had incomes of less than $5,000 a year but received approximately two-thirds of the total national income paid out, while the other 5 per cent of the consumer units had incomes above $5,000 and received about one-third of all income.

The Basic Facts

These estimates are open to question. They do not represent an actual sampling but—adjusted to population growth and increased total national income—derive from an earlier study made by the National Resources Committee, covering the years 1935-1936. Those who made it believe—and may have been influenced by social convictions to prove—that the upper classes get too big a share of the income.

That study, as well as the famous TNEC Monograph on income distribution for the fiscal year 1938-1939, is in considerable conflict with Treasury statistics derived from actual income tax returns. For instance, the TNEC data ascribed total income of over 10 billion dollars to persons who had incomes of $10,000 or more for that year. Treasury tax returns put the net figure at only a bit over 4 billion dollars.

Actually, the differing figures are not 100 per cent comparable. An unknown amount of tax evasion must

be allowed for, and the Treasury concept of what constitutes net income is not the same as that applied in the other studies. The Treasury allows deductions for interest paid, certain taxes paid, contributions within limits, income from tax-exempt bonds, etc. The OPA findings, as well as the previous studies on which they were chiefly based, made allowance for no such matters. The TNEC study even included as "income" the "rental value" of owned homes and corporation taxes on the theory that this was income that (except for the taxes) might have gone to stockholders!

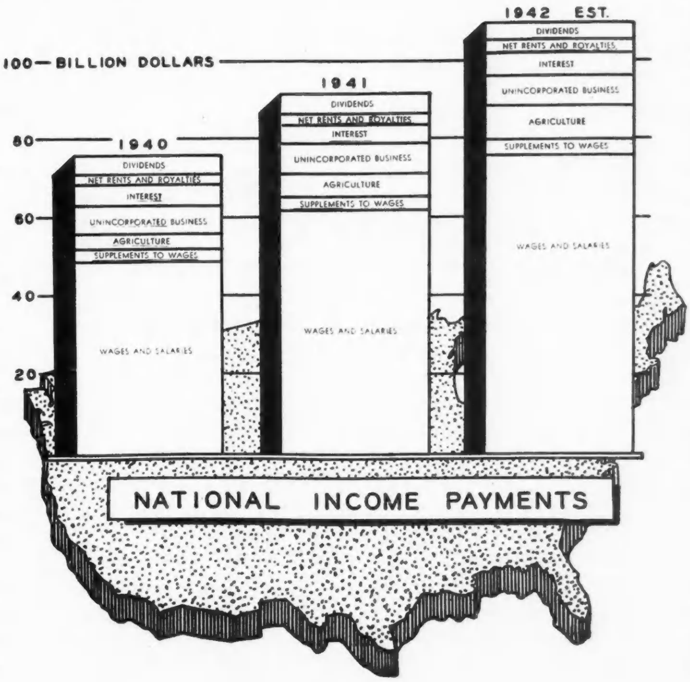
Whatever the differences in comparability, it is highly probable that Treasury tax statistics throw a more reliable light on how many people have incomes of $10,000 a year or more than the other studies.

None for the Idle Rich

One thing is wholly beyond dispute. It is this: To the extent that the upper income classes—that is, those receiving more than $5,000 a year—are benefited by the war activity, the great bulk of their gain is in earned income in the form of salaries or other compensation for services rendered. We have entirely reliable Department of Commerce Statistics which prove that the "idle rich" are not getting richer. The total of dividends and interest income this year is estimated to be only some 15 per cent greater than in the pre-war year 1939 and about 25 per cent less than in 1929. The dividend total is about 30 per cent under 1929. Ex-taxes, it will be well under the level of 1939. Total wages and salaries are about 46 per cent greater than in 1929.

It is too bad that the Department of Commerce does not make separate estimates for wages and salaries. The latest detailed Treasury tax statistics available are for the year 1939. They throw some light on the relation of high salaries to total wages and salaries. For that year the salaries, commissions, etc., of taxpayers with $10,000 or more of income came to a total of 1.8 billions of dollars out of total wages and salaries (Department of Commerce figure) of about 44 billions. The aggregate of salaries, especially in the manufacturing industries, has increased greatly over 1939 but so have wage payments. It is probably a reasonable assumption that the 1939 proportion of salaries of $10,000 and above to total wages and salaries has not importantly changed.

SEC reports show a large number of salary and bonus increases for corporate executives in 1941. This trend has undoubtedly continued this year—but with somewhat less momentum, due both to political considerations and rising agitation of minority stockholders over reduced dividends.



But the most spectacular increases of all—and a very important though not accurately known part of the gain in total income payments—have been and are being enjoyed neither by the "Big Shot" corporate executives nor the wage earners but by the rather large and fast-growing classes represented by engineers of all kinds, master mechanics, production superintendents, shop foremen, etc.

You can't get any statistics on these people but you can get some most illuminating general clues as to what is going on merely by glancing at the want ad columns of any metropolitan newspaper. Here are just a few samples from a recent issue of the New York Times:

General manager, to $20,000; executive engineer, $15,-000-$18,000; tool plant executive, $12,000; chief electrical engineer, $12,000; industrial relations manager, $12,000; assistant industrial relations manager, $8,000; plant manager, $10,000; chief tool engineer, $10,000; superintendent, precision instrument manufacture, $10,-000; master mechanic, $8,400; wire plant superintendent, $7,200; radio engineers, $7,000; sales engineer, metal industry, $10,000; food chemist, $6,000; guage inspector, $5,500; foreman, automatic screw, $5,200; designer, gas tanks, piping, $5,200, etc.

Income Distribution

On the whole the writer believes it a reasonable estimate that some 60 per cent of the wartime increase in national income is going to people with incomes under $5,000, 40 per cent to those above $5,000 and perhaps somewhere between 20 and 25 per cent to those with $10,000 or more a year. The great bulk of the increase for those under $5,000 a year is due to wage increases and higher farm income, but also in important measure to higher salaries among the lower ranks of industrial supervisory staffs. Probably more of the increment to people with above $5,000 is due to higher salaries of engineers and other technicians —plus the increased income of partners or owners of unincorporated business enterprises—than is due to higher remuneration of top corporate executives.

There is an up-grading of earned income in all income classes. For instance, this year only about half as many in-

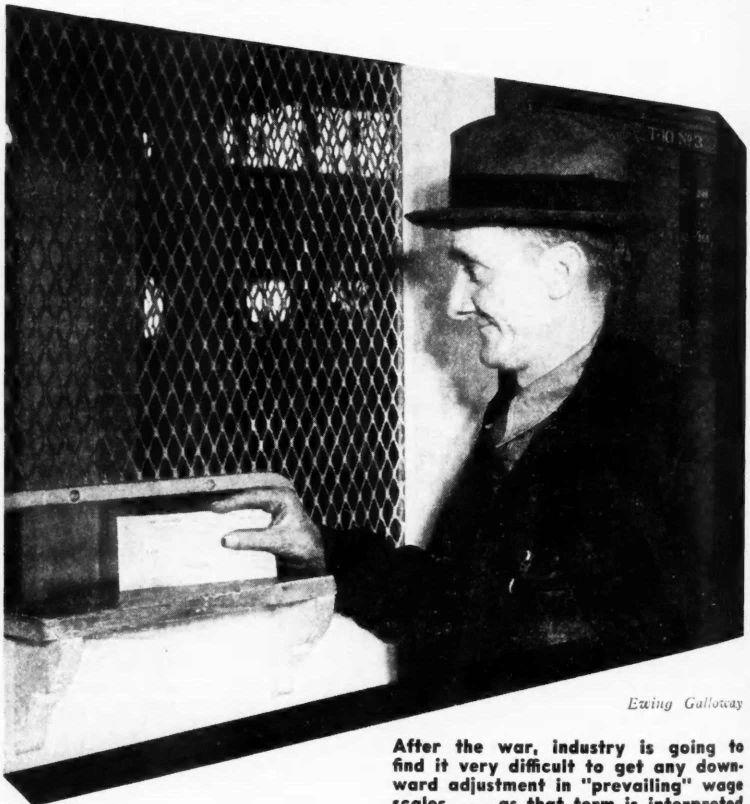
individuals will have incomes under $1,000 as was the case in the pre-war year 1939. The other half of that 1939 group have moved up. Roughly one-third more people are in the $1,000 to $3,000 group than was the case in 1939 and their total income is almost a third more than in 1939. Above that the apparent group changes are curiously similar in percentage. Number of $3,000 to $5,000 people has increased about three-fold over 1939 and total income of the group by about the same proportion. In the $5,000-$10,000 group, the numerical increase is also roughly three-fold and the total income increase about 250 per cent. Approximately the same percentages for numerical increase and gain in total group income apply to incomes of $10,000 and more.

At least for the duration of the war, the income stratification of American society is being rather violently changed—with the biggest percentage gains in net income—that is, income after taxes—going to skilled industrial workers, farmers and industrial technicians of the engineer - superintendent - foremen-master mechanic classes.

The permanence of the bulk of these income gains—relative to the position of the millions who have no increase whatever in remuneration—is highly dubious. But you can take it for granted that political group pressures are being created or strengthened—with political and social potentialities beyond forecast but very great indeed. The beneficiaries will assuredly come to regard themselves as having vested interests in the new jobs and the radically increased wage and salary scales. Though at the expense of private employment and calling for Government "made work," post-war industry is going to find it very difficult to get any downward adjustment in "prevailing" wage scales as that term is interpreted by union labor. And if you think it might be hard to "sell" the people of the United States on the idea of policing the world or otherwise maintaining large armed forces and armament industries—take a look at the jobs involved before you jump to conclusions.

There is no evidence, by and large, that the lucky ones who are "in the money" are inclined to spend it recklessly or go searching around for something to buy. The Department of Labor estimates that the average income of all urban dwellers in the first quarter of this year was 7 per cent larger than a year ago, with current consumption expenditures up only 2 per cent. There was a rise of about 70 per cent in savings put aside. Even families which, on sampling, reported no change in income, reported increase of about 50 per cent in their savings. On an average in the first quarter, city families or individual "consumer units" with incomes of $1,500 to $2,000 saved $5.80 out of every $100 of income, against $1.80 in the first quarter of 1941. For those in the $3,000-$5,000 income group, savings were $12 out of every $100 of income, against $8.70 a year before. The Department of Commerce will before long publish figures expected to show that in the second quarter the people put aside savings at an annual rate of about $23.5 billions or an increase of some 115 per cent over the second quarter of last year. The estimate includes allowance for debt reduction, which is going on at a good clip.

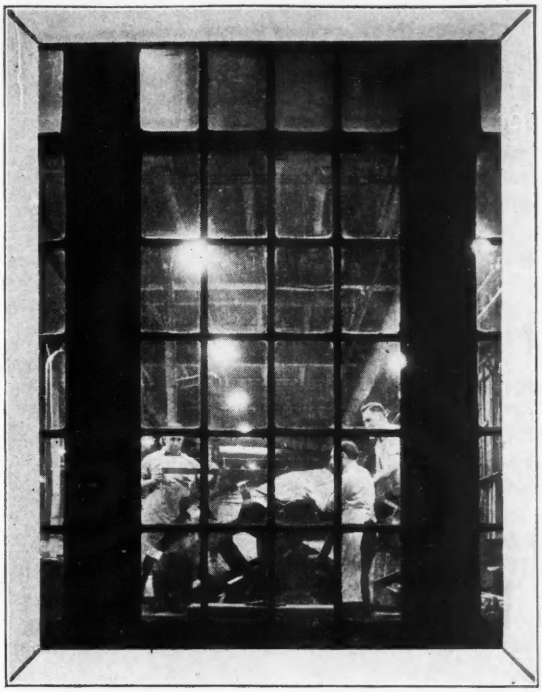
Indeed, the consumers voluntarily are perhaps doing more to hold inflation in check than the Government has done to date. They are not only saving more and paring down their debts, they are buying less in physical quantity and dollar value of general merchandise than they were buying a year ago. *In ratio to available spendable income, the decline in retail demand is even more striking.* The Federal Reserve Board monthly index of department store sales, without adjustment for seasonal variation, was 118 in March, 115 in April, 108 in May and 100 in June. The consuming public's outstanding installment debt is being reduced at a monthly rate of about $250 millions. This indicated debt reduction of around $3 billion this year, with more to come next year, will take care of part of the "inflation gap" that Washington's statisticians are unduly worried about—and will also leave a large debt-creation capacity through which postwar consumer demands will be served. Other forms of consumer debt—including charge accounts and farm and urban mortgage debt—are also declining, though these totals are less impressive than in the case of installment debt.



Ewing Galloway

After the war, industry is going to find it very difficult to get any downward adjustment in "prevailing" wage scales . . . as that term is interpreted by union labor.

The data on income distribution cited in this article make out a very strong case (*Please turn to page 516*)



War Remaking Industrial America

Part II—Shifts In Economic Geography Today and Tomorrow

BY L. O. HOOPER

In 1941, labor income per capita in the manufacturing, mining and construction industries was 64% higher than in 1939. It was higher in every state in the Union, the gains ranging from 20% in Wyoming to 106% in Delaware. The states where the improvement was "above average" were Delaware (106%), Connecticut (93%), Michigan (82%), Maryland (82%), California (82%), Alabama (81%), New Jersey (78%), Indiana (77%), Ohio (72%), Washington (72%), Oregon (70%), Virginia (68%), Rhode Island (67%), Florida (66%), and Pennsylvania (66%).

Check the states just mentioned against the following "defense centers": Hartford, Bridgeport, New London, Wilmington, Detroit, Baltimore, the southern California aircraft manufacturing area, Los Angeles, Birmingham, Newark, Kearney, Bayonne, Camden, South Bend, Evansville, Cleveland, Cincinnati, Dayton, Middletown, Seattle, Newport News, Richmond, Norfolk, Providence, Newport, Miami, Philadelphia and Pittsburgh. Remember that last year's defense expenditures were not more than one third of those of 1942 and probably not more than 1/4 or 1/5 of those of the next 12 months.

Against these figures a less-than-national-average improvement was scored in New York (55%), Illinois (60%), Massachusetts (60%), Texas (40%) and Missouri (40%). This means that centers like New York, Albany, Buffalo, Chicago, Boston, Worcester, Lawrence, Lynn, Houston, Fort Worth and St. Louis have not enjoyed the same wage and salary income stimulus.

It is notable, however, that the improvement is nationwide. This is because the awarding of "primary" defense orders or contracts in one area invariably is followed by the awarding of "secondary" and "tertiary" contracts for goods in other areas. For instance, Newport News, Camden and Kittery have to go to Bethlehem, Pittsburgh and Youngstown to get steel to make ships. Detroit has to go to Chicago for steel; Bridgeport must have copper from Montana and Utah; Hartford needs aluminum from Pittsburgh; and Long Beach needs the many things which go into planes.

The armament business also has been a blessing to war-blighted areas. Paterson's silk supply has been cut off; but Wright's has built immense engine plants there and in nearby Fair Lawn. Detroit could not have obtained either steel or rubber to make automobiles in such an intensive war economy; but it is making more machine tools than ever and has developed into one of the biggest airplane, tank and ordnance centers, employing more mechanics this year than ever before. Akron could not have kept busy making so few tires as would have been required for the normal replacement market (had rubber been obtainable) without Detroit's huge "original equipment" demand; but the government has found plenty for the rubber plants to do. This war program is so big that it takes effort from every center, every trade and every state.

The figures just presented cover less than one month of the period after Pearl Harbor. Probably the trend toward higher incomes in the war states and the war centers will be more pronounced when 1942 and 1943 statistics are available.

In times like this, few of us realize how much war upsets normal relationships. It means conversion of industry from the production of usable things to the production of instruments of destruction and to producing things which will be destroyed as well as making a huge amount of stuff which never will be used. In order to have enough, a warring nation has to make too much. To wage a successful war, it must build new plants, often good for little else than the production of war goods, as well as convert old ones. Often it is necessary or good tactics to build them in areas where there was little industrial activity before the war, and where there probably will be little activity after the conflict ends in victory. In the late nineteen forties therefore there will be modern replicas of the nineteen twenties scenes at Hog Island and Haverstraw. It may not be abandoned shipyards and ships, but it will be abandoned factories and accumulated and unused rusting and rotting things for which we are now (wisely) paying high taxes and accumulating debt to produce at a huge money and labor cost.

The war will "make" some new communities; but many of today's boom towns and mushroom areas will go back to a peace-time normal much in the way millions of selectees will throw off their uniforms for civies. It will be strange indeed, for instance, if the shipyards of Seattle, Camden, Kearney and Quincy succeed in competing in peace time with those of Scotland and Germany. They could not compete after 1918, and there is little reason to think they can after Hitler and Hirohito. We will have a big airplane industry, but not so big as now; and some of the airplane plants now employing their thousands and their tens of thousands probably will lock their doors and stand idle till their blacked-out windows are broken and grass grows in their now busy streets. In ten years some of the busy army camp sites in our southern states will be farms again. Where 10,000, 20,000 or 50,000 soldiers now train at once, the former quiet will return as it did in the early twenties at Camp Devens, Camp Dix, Yaphank and Camp Merritt.

World Economic Change Inevitable

But the war will change the face of things in America as it will in other parts of the world. Where and how? Admittedly that is for the future to decide, but there are certain generalizations which may be made with a fair amount of assurance. There also are other things which are in the "maybe," "perhaps," "probably," "possible," and "if" class.

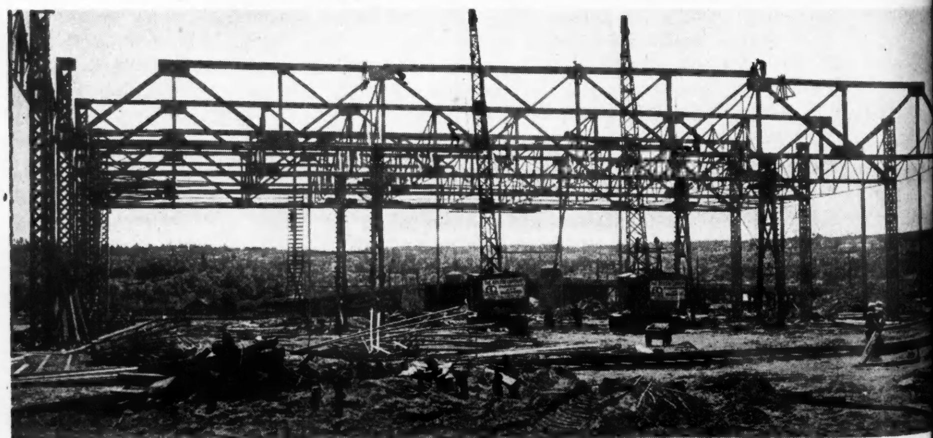
Perhaps it will be convenient to consider some of the trends which were in progress before the war which probably will be accentuated by the dislocations and trends of the conflict. We also can think of a few new geographical trends which may originate from the war, and finally we should by all means consider what may be called the geographical results of technological progress which the war has stimulated and inspired. Thus we may begin with something exceedingly tangible and likely and by degrees move to possibilities and then to the area of pure guess.

Going back once more to the Department of Commerce's figures regarding the geographical distribution of income payments in the United States, it is possible to discern some long-pull trends of considerable importance.

In 1929, the states of Massachusetts, New York, Pennsylvania and Illinois contributed 39.62% of the total national income; but in 1941 these same states contributed only 35.17%. Income per capita dropped from \$900 to \$772 in Massachusetts from 1929 to 1940. In the same period income per capita dropped from \$1,125 to \$885 in New York, from \$769 to \$635 in Pennsylvania and from \$913 to \$716 in Illinois.

Contrast these states with others. California, Connecticut, New Jersey, District of Columbia, North Caro-

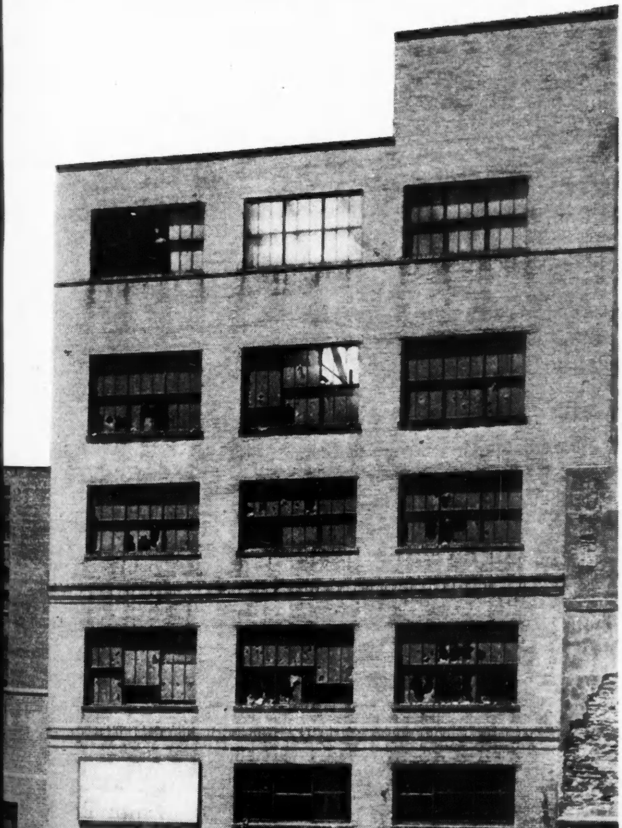
War is "making" some new communities . . . but after the war plants now employing thousands and tens of thousands probably will lock their doors and stand idle till their blacked-out windows are broken and grass grows in their now busy streets.



Boeing Aircraft

lina, Florida, Tennessee, Texas, Michigan and Minnesota in 1929 contributed 25.12% of the national income, but in 1940 they contributed 28.60%. Per capita income declined in almost every state in the Union, but the declines were comparatively small in Maine, Connecticut, New Jersey, Indiana, Minnesota, Delaware, Maryland, District of Columbia, Georgia, Florida, Tennessee, Texas, Wyoming, Colorado, Nevada, and Washington. The 1940 per capita incomes of Virginia, North Carolina, South Carolina and California actually were higher than in 1929.

The reasons for the trend of income away from the great centers of population are in part connected with the great social and economic revolution now in progress. The so-called service industries, such as finance, insurance, and personal services are allergic to the same trends which have been helping the so-called productive and extractive industries, and the service industries are highly concentrated in states like Massachusetts, New York, Pennsylvania and Illinois. Moreover, because of labor conditions and the trend toward industrial decentralization, manufacturing industries have been moving South. Cheap power may have been a factor in some areas like Tennessee and Wisconsin. No doubt a better type of industrial management has been an important influence in some parts of the South. Transportation may have been more important as freight rates have increased. The automobile has not been entirely out of the picture. In a state like California, the rapid growth of population, in itself, has contributed.



F.P.G.

We have the strongest statistical evidence that Massachusetts has been declining in industrial importance while Connecticut and Maine have been progressing. New Jersey and Delaware have been doing better than New York. Indiana has been progressing while Illinois has lost ground. The textile industry has moved, almost lock, stock and barrel, from New England to the South in a generation. A great new industrial area has been built up around Detroit. Hartford, Paterson, Long Beach, Los Angeles, Detroit, Fort Worth and now even Kansas City are competing for leadership in the new aircraft industry. It must be admitted that the policies of the federal government in late years, through effect if not even by design, have tended to build up new industrial strength in the South and the Southwest.

War Intensifying Industrial Trends

This pre-war trend probably is being accentuated by the war. While army cantonments have been spread all over the country, states like Virginia, North Carolina, Georgia, Florida and Texas would appear to have had their temporary populations increased more than average by army camps. In some centers, this has built new commercial cities in the wilderness. These new army boom towns are being further subsidized by the army's higher pay scales, by the fact that this army demands more equipment and therefore more supplies than any other army ever demanded, and by generally higher living standards—if they may be called that—in army camps.

It may be objected that an army boom town, in a non-militaristic country, is the most temporary kind of a soda-water community. It should not be forgotten, however, that hundreds of thousands of the most aggressive forward-looking young men are being introduced to the South, and that thousands of more adventurous and more ambitious business men are following them to found new businesses. Some of these new business men are going to stay in the South long after the war is over, and some of the soldiers are going back there to make their homes. Not a few have married southern wives, and many have been impressed by the fact that the South is growing while the communities from which they were drafted are not.

The government has spent millions of dollars in the Tennessee Valley. Part of this money has been spent on the development of cheap power; but the Tennessee Valley project is more than that. It is a conscious attempt to build a new industrial area, a series of new communities. The government, which is ever more important in our time, is sponsoring and encouraging development in some areas and either through accident or design is discouraging even the maintenance of previous standards of attractiveness in others.

It is written large in any prospectus of the future that the formerly sleepy South now has developed a new generation of the most aggressive people in manufacturing and commercial lines as (*Please turn to page* 514)

Balanced Security Portfolios For Today's Needs

J. S. WILLIAMS

The accompanying "safety first" portfolio list is designed to meet the needs of those investors who wish to obtain more than a meager savings bank yield on their funds, and yet desire to avoid risking loss of principal so far as possible. There is, of course, no such thing as 100% safety, as many people discovered during the bank crashes of 1933. Even U. S. Government bonds may vary widely in price over a period of years—for example the U. S. 3⅛% bonds of 1949 issued in 1931, have had a range of about 113-83 (recently around 107).

Many high-grade bonds are now close to the highest levels in many years, and hence there may be risk of price deterioration if interest rates advance. On the other hand, high-grade stocks, while affording generous yields, may still be somewhat vulnerable to taxation—though it seems likely that further tax demands in 1943 will have to be met by a sales tax rather than heavier corporation levies.

Nobody can hope to be able to forsee the longer future and its inevitable changes—many of which certainly will affect importantly the relative positions of the different industries and of the securities of corporations within them. Scientific and technical developments, as well as other new factors, will in the future, as in the past, create unpredictable investment problems.

In trying to compile a "safety first" portfolio, diversification is therefore a prime essential. The list here presented is made up as follows:

	Percent of Fund	*Average Yield*
U. S. Bonds	40%	2.5%
Corporation Bonds	26	3.7
Preferred Stocks	16	4.6
Common Stocks	18	5.5
	100%	3.7%

Since high-grade preferred stocks (particularly the old-line non-callable issues like American Can) tend to fluctuate with bond prices, only 18% of this total portfolio—the amount invested in common stocks—may be considered as an "inflation hedge." For those who consider inflation a real danger and desire a larger degree of protection, it is suggested that the investment in common stocks be increased to 100 shares in each case, substituting this added investment for the amount placed in preferred stocks (in the table). We comment as follows on the individual items in the portfolio:

Series "G" war bonds are suggested in preference to Series "E" and "F" since they pay cash income rather than income at maturity . All three series differ from other U. S. Government bonds in that they cannot be sold in the ordinary sense, being registered in the owner's name and non-transferable. They can be converted into cash, in whole or in part, at the holder's option at any Federal Reserve Bank or at the Treasury Department (any post-office or bank will help in this procedure). They can be redeemed after six months from the date of issue, on one month's written notice.

The Government does not of course want to cash these bonds before maturity and for this reason the redemption values decrease for the first five years, to a minimum of $9.47 per $1,000 bond; in later years value increases so that the bond is worth 1,000 at maturity (12 years after date of issue). However, the cash value at any time plus the interest payments received up to that time will always total more than the purchase price. Moreover, the holder is protected against the market fluctuations which affect other Government issues (assuming of course that the Government remains financially able to retire the war bonds on demand, of which there can be little question).

Bondholders therefore have an incentive to

$25,000 "Safety First" Portfolio

	Price About	Cost About	Percentage Yield	Income About
War Bonds				
10M U. S. Series "G" 2½/54	100	$10,000	2.5%	$250
Corporation Bonds				
1M Atchison Genl. 4/95	111	1,110	3.6	40
1M Union Pacific First 4/47	109	1,090	3.7	40
1M Consol. Edison Deb. 3½/56	106	1,060	3.3	35
1M Pacific Gas & Elec. 4/64	113	1,130	3.5	40
1M Youngstown sheet cv. 4/48	102	1,020	3.7	40
1M Armour & Co. (Del.) 4/55	106	1,060	3.4	40
Preferred Stocks				
50 Southern Cal. Edison $1.50	29	1,450	5.2	75
10 American Can $7	163	1,630	4.3	70
10 Chesapeake & Ohio $4	95	950	4.2	40
Common Stocks				
50 General Motors ($2.00)	38	1,900	5.3	100
50 General Electric ($1.40)	26	1,300	5.4	70
60 Lehman Corp. ($1.25)	21	1,260	6.0	75
Total Portfolio		$24,960	3.7%	$915

$25,000 Portfolio for Income and Appreciation

	Price About	Cost About	Percentage Yield	Income About
Bonds				
$2,000 Seaboard A. L. Rec. Cert. 3½s	75	$1,500	4.7%	$70
2,000 Texas & Pac. Ref. 5/80	64	1,280	7.9	100
2,000 Gulf, Mobile & Ohio Ref. 4/75	68	1,360	5.9	80
2,000 Cont. Gas & Elec. deb. 5/58	78	1,560	6.4	100
2,000 Elec. Pwr. & Lt. Deb. 5/2050	77	1,540	6.5	100
2,000 N. Y. Dock 1st 4/51	63	1,260	6.4	80
Preferred Stocks				
40 Erie (New) $5 pfd.	38	1,520	13.1	200
50 Reading 1st $2 pfd	26	1,300	7.7	100
20 Natl. Pwr. & Lt. $6 pfd	71	1,420	8.5	120
25 North Amer. Co. $3 pfd	47	1,175	6.4	75
25 Amer. Loco. $7 pfd.*	76	1,800	9.2	175
25 Armour (Ill.) $6 conv. pfd.†	53	1,325	11.3	150
Common Stocks§				
25 Atchison ($4.50)	42	1,050	10.7	113
50 Pennsylvania ($2)	22	1,100	9.1	100
100 Amer. Lt. & Trac. ($1.20)	11	1,100	10.9	120
50 Clark Equipment ($3)	31	1,550	9.7	150
50 Fairbanks, Morse & Co. ($2)	30	1,500	6.7	100
100 Paramount Pictures ($1)	16	1,600	6.3	100
Total Portfolio		$24,940	8.2%	$2,033

*—Paying $7, arrears amount to $43. †—Paying $6 arrears, amount to $21. §—Dividend rates are estimated, based on recent payments.

retain the bonds until maturity, since the interest income, plus the change in redemption value, will be much larger in later years than in the earlier years. This should help offset any natural tendency of small holders to "cash in" after the war. Considering the fairly early maturity, the 2½% yield on the "G" bonds compares favorably with yields on marketable Treasury issues.

Our corporation bond list is composed of two rails, two utilities and two industrials. Little comment is needed on the Atchison Generals and Union Pacific "Land Grants," which have long been known as premier bonds. Both are non-callable.

Consolidated Edison Debenture 3½s are protected by the company's strong cash position, conservative capital set-up and earnings of nearly three times the bond interest. While Federal taxes have cut into earnings available for the common stock, the bonds may be considered "tax-sheltered."

Pacific Gas & Electric bonds are rated AAA and interest is earned nearly three times. While the bonds are selling about three points over their call price, it appears unlikely that any refunding operation will now be attempted.

Youngstown Sheet & Tube is one of the old-line steel companies and while earnings fluctuate considerably, bond interest was earned over 16 times last year.

Armour & Co. (Del.), a $275,000,000 packing company, is benefitting by the greatly increased demand for meats for the military forces, lease-lend, etc. Earnings last year were more than 6 times interest requirements.

Regarding the preferred stocks, Southern California Edison, like Pacific Gas & Electric, has no SEC problems. It has enjoyed relatively steady earnings and last year covered dividends well over twice.

An Old Line Blue Chip

American Can, an old-line "blue ribbon" company, covered its preferred dividend last year over 6 times and is well fortified with cash. The company has gone extensively into war work and is adapting its business to the current shortage of tin.

Chesapeake & Ohio is one of the most stable earners in the railroad list: even in 1932 the company earned $3.08 on its common stock. The preferred issue is relatively small and a recent report showed nearly $300 a share earned.

Regarding the common stocks, little comment is required on General Motors and General Electric. While General Motor's report for the first half was rather disappointing due to the heavy inroads of taxes, it still approximately covered the current dividend rate. Current assets as of June 30 amounted to nearly $1,000,000,000 including over $300,000,000 in cash.

The recent special offering of a block of General Electric met with an extremely heavy demand, indicating that the stock is still considered one of the prime investment issues.

Lehman Corp. is suggested because the company's assets in themselves constitute a well-diversified portfolio, and the management's record has been good. The trend of liquidating value over a period of years has been substantially better than that of the Dow-Jones average. The liquidating value as of June 30 was about $25 a share, well above the current price.

Turning to our "Income and Appreciation" portfolio, this is made up approximately as follows:

	Percent of Fund	*Average Yield*
Bonds	34%	6.2%
Preferred Stocks	34	9.6
Common Stocks	32	8.7
	100%	8.2%

Each of the three groups has been diversified as between rails, utilities and industrials. While a few second-grade issues have been included, in our opinion the broad diversification affords substantial protection against severe loss of income in any post-war depression. Since the list does not include high-grade "money" bonds and preferred stocks, values should not be greatly affected by rising money rates. While most issues carry some risk of price decline if the general market deteriorates, on the other hand the majority of the issues should benefit considerably by any inflationary trend. In our opinion a number of the preferred and common stocks offer better-than average possibilities for near-term appreciation, assuming that the general market trend is favorable.

Seaboard Air Line Receiver Certificates are included because it is now generally anticipated that they will be retired out of earnings, possibly by the end of the year. Some certificates have already been retired by calling for tenders. The road's current earnings are the best in its history, and con- (*Please turn to page 517*)

Happening in Washington

Charles Phelps Cushing Photo

BY E. K. T.

Selective Service System has collected occupational questionnaires from 40,000,000 men of working age but nobody has any funds to process these for manpower mobilization. That's typical of the shortsighted planning and horsing around so prevalent here.

Enforced savings formula may be written into the tax bill by the Senate Finance Committee. Conceivably it might make a general sales tax unnecessary, might be a substitute for the unpopular five per cent withholding tax concocted by the House. Right now there's a quiet movement afoot in the committee to couple enforced savings with purchases at retail. It has strong backing.

Washington Sees:

Washington writers are reluctant to say so publicly but many of us are convinced the nation's entire economy must come to be dominated by the military unless W P B reasoning and acting become more realistic

W P B production thinking continues to be hedged in by considerations wholly incompatible with total war. Donald Nelson still thinks in terms of balanced production. Current events indict that as impracticable.

Despite all the theory and logic of Washington planners, two facts emerge as indisputable: (1) there just aren't enough raw materials for balanced production, (2) raw materials must be channeled to the spots where most needed for war production.

W P B has failed miserably in raw materials allocations. That's why war plants are slowing, closing today. Possibly it's not yet too late for W P B to redistribute raw materials on a basis of war needs. That remains to be demonstrated. But unless demonstrated without delay, the military must almost certainly be given limitless control over the nation's productive economy in its entirety.

Job freezing remains remote. National Service Bill is bogged down by politics, can't be passed before late fall. After enactment it will be brandished largely as a blackjack to suppress labor pirating and scare skilled workers into wartime jobs. Plain fact is Federal agencies aren't yet ready for labor freezing, are permitting pirating on rush projects under their supervision.

Feud between W P B and Federal Power Commission has been stirred up by Donald Nelson's order suspending planned power facility expansions. F P C is making last frenzied effort to re-establish itself in the war effort. It will fail.

Price Ceilings on processed foods will soon be adjusted upward. This represents the biggest failure of the "General Max" program. It merely proves the obvious: namely, that we can't maintain fixed price ceilings unless (1) the costs of doing business are held down or (2) Federal subsidies are paid to offset the squeeze between higher costs and fixed selling prices.

Baruch Committee won't pull synthetic rubber—or rubber of any kind for civilians—from a hat. It's job is solely to get facts. Roosevelt wants the facts, is politically afraid of the rubber and gasoline problems, doesn't wish to act until able to lay before the public an honest appraisal by a reputable group such as the Baruch-Conant-Compton combine. He expects the committee to disclose how rubber can be best produced the quickest. Drastic presidential action to eliminate pleasure driving is expected to follow.

Outlaw strike epidemic has the war makers worried. Publicly the President tries to laugh these disorders off, but you can expect tough extermination action shortly.

Senate Finance Committee next week goes into secret session and gets down to the serious business of redrafting the House-approved tax bill. Certain conclusions now appear justified. (1) Likely the bill won't become law until after elections. (2) It will be a stopgap measure, to be trailed by another revenue bill next year. (3) The Senate will write into the legislation more realism than did the House, will up the ante but won't reach the Treasury's $8,700,000,000 goal. These are general conclusions. With respect to certain specific issues, the following look like good guesses.

27½% oil well depletion allowance will remain unchanged. Treasury wants it eliminated or reduced. Convinced the country with the last barrel of oil has the best chance of winning war, committee members won't trifle with this schedule.

Outstanding issues of state and municipal bonds won't be taxed. That means another Treasury defeat.

General sales tax is in the middle, appears to have a 50-50 gamble of getting into the bill. Don't bet your money either way—committee members themselves aren't sure how they'll vote on this revenue raiser.

Corporation income tax schedule will be softened in some manner. Just how isn't yet apparent. But you can be sure the Senate won't be as tough on corporate earnings as was the House. The House bill too closely resembles confiscation, too serenely ignores post-war economy. The Finance Committee will strive to gear this levy with after-the-war recovery.

Relief for debt-ridden corporations will be more theoretical than real in the final shape of the bill. The policy of relieving debtors will be written into the legislation. That will be the intent. But likely it will be too restrained, too guarded to reach those needing such assistance. Next year we can look ahead to broadening of the formula.

Some unique tax to hike collections will be elbowed into the measure by the Finance Committee. This may be a head tax on all wage earners. Or it may be a withholding levy. The committee itself doesn't yet know which, won't know until probable income from other phases of the legislation is assayed. But committee members are in agreement that revenue cannot be materially boosted without the insertion of a novel impost of some character.

Capital gains tax will be modified to encourage property transfers. The House bill discourages such transfers.

National petroleum rationing isn't scheduled for the near future. It's off until after elections, possibly much longer. But extension of rationing into the Midwest looks sure. This will permit diversion of more transportation facilities to eastern seaboard service. The extension may apply only to dealer deliveries, may not involve consumer cards.

Draft deferments for young war plant workers are to be revoked in growing numbers. Need for youthful Army material makes this imperative. War Manpower Commission won't object, will apply a common sense formula of substituting women and older men and boys for the younger fellows wanted by the military. Already war industries have been set to work reclassifying workers for the purpose of segregating the absolutely indispensable from those who can be spared.

Jewelry manufacture in this country is expected to be terminated by fall. Already it has been ended in Britain.

You can look ahead to more bonus allowances for your sugar card, but don't expect rationing to be completly abandoned. Leon Henderson remains resolved to kid the public into thinking the program was, still is, necessary.

Don't get excited over this talk about quartering war workers in private homes. There's nothing to it. The Government hasn't and won't ask for such authority.

Power rationing will first appear next month. As projected by WPB it will hit only one state, will be mild. WPB chartists are confident major rationing can be deferred until next year but warn it's inevitable.

Leon Henderson's entire price control formula faces collapse. Ceilings are being, will be, punctured with increasing regularity. Reasons are primarily two: (1) refusal of Congress to authorize subsidy payments, (2) refusal of President Roosevelt to freeze wages. Henderson personally must accept blame for failure of subsidy legislation—he angered Congress by glorifying himself as a one man band responsible solely to the White House.

Don't worry about the meat scarcity. It's temporary. There will be an adequate 1943 supply but it may be rationed to assure equitable distribution.

You can discount assurances from official Washington that OPA hasn't definitely decided upon specific items to be rationed after elections. That's propaganda. Some items, mainly imports, have been singled out but there will be no advance warning.

Rent-control program is backfiring the country over. It's too rigid, too inequitable. Like the Labor Relations Act it's administered only to benefit one group without regard to inherent rights of others. That won't work. Chiseling will continue until landlord problems receive fair recognition.

Foods Requirements Committee, set up by Donald Nelson as a substitute for a food administrator, is justifying early predictions it would be a non-descript flop. Agriculture Secretary Wickard, committee head, has invoked strict censorship, has prohibited all members from discussing procedure. Nonetheless, it's common knowledge that at the committee's last secret rendezvous Wickard and former Governor Townsend of Indiana consumed a full hour seriously meditating on the best type of fencing for hog wallows. Food men are disgusted by the committee's antics.

$600,000,000 housing program for war plant workers is blockaded by personal prejudices of a couple of western House members. The bill is ready for passage but the House Rules Committee has lassoed it. The reason — two committee members aren't satisfied with housing plans for their particular communities, are trying to pressure national housing officials into alterations.

On the Industrial Front

Production estimates for the second half-year must be revised downward. It had been expected that net result of decline in civilian output would be further gradual rise in total production from present estimated level of 180 for Reserve Board Index. Biggest question is how soon the WPB — or somebody else — can untangle the snarl in raw materials supply. Unless it is untangled, present small curtailments in war plants will spread and could become serious.

The Government's "control" of raw materials up to now may be likened to the following very rough and over-simplified example: A corporation decides to build a factory (Army), a power house (Navy) and a fleet of transport vehicles (Maritime Commission). There are separate groups of architects and engineers for each. Without set limits, the groups just start out to build the biggest possible factory, the biggest possible power house and the biggest possible fleet of carriers. Since there are no limits to objectives, nobody can estimate maximum materials requirements. With materials none too plentiful, each group tries to stock up as far ahead of current utilization of materials as possible, and this movement extends down to all suppliers. There are three separate groups of purchasing agents competing with each other, with scant regard to costs. Each group issues high materials priority ratings to its suppliers. There are not enough materials to make the freely issued priority ratings "good". Like inflated money, they lose value in materials. Obviously, no corporate undertaking could get satisfactory results with such methods. Neither can our war program planners.

There's more than meets the eye in the crisis confronting Nelson and his WPB. More than effective control of materials is at stake. The WPB is manned by civilians. Their job is to boss both the war supply and civilian supply; and they have the adequate legal power. Top civilian control is traditional with us and all other democracies. But we have the grimmest of all wars to win. That hard fact outweighs tradition. The civilian WPB must now promptly get a firm grip on the faltering program — or the military must be permitted to take over full control. That would mean a regimentation of the civilian economy, and of civilians, far more stringent than we now have. There is still some peace-time "fat" in the civilian economy. The last ounce would be squeezed out, and quickly.

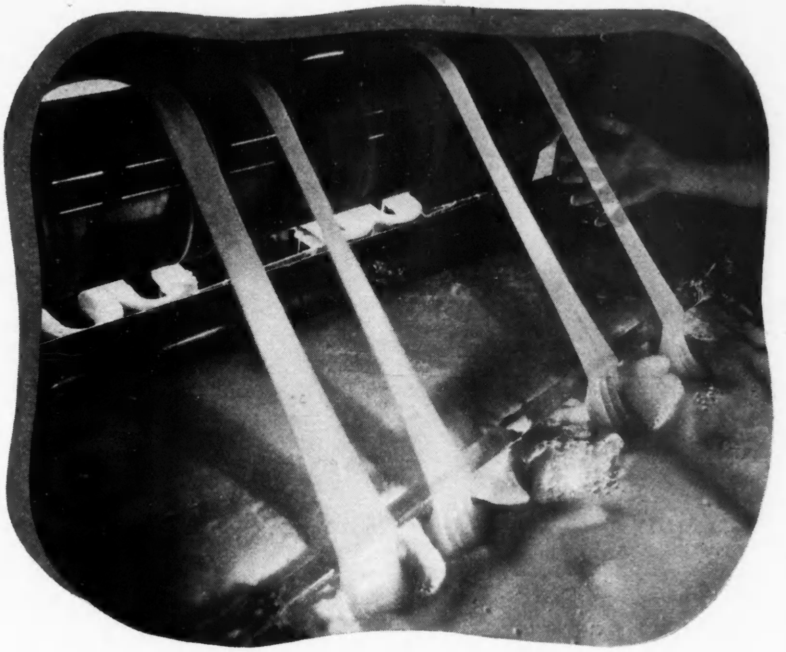
Are we going to have inflation? Answer: We are having it now. But this answer still begs the question. For instance, it may be raining today — but it makes a whale of a difference whether it's a light shower or a cloudburst. So it is with inflation. As it is, it's only a light shower. At the mid-year the purchasing value of the public's money income was 13 per cent greater than a year ago, but the trend of recent months has been down. In March "real income" was 23 per cent greater than a year ago. It would be foolish to be cocksure about the longer future, but within the foreseeable future no important depreciation in the purchasing value of your money is on the cards. At present commodity indexes—spot and futures—are creeping down, not up. In fact, they have been moving slightly downward for the past month.

In even the oldest industries there is much that is new these days. The scientific revolution is on the march. Take food, man's first pursuit on this globe. From scientifically developed seed strains and increasingly efficient mechanized production at one end to the finished dish at the other end, this business is undergoing greater innovation than ever before. There's a lot of water in most foods. Take it out — dehydration — and with a given cargo space you can ship ten times more food than formerly. Put the water back in, and the cook takes over as usual. That is being done on a big and increasing scale with eggs, milk and vegetables and dehydrated meats are on the way. Again, butter can be shipped to and kept in the tropics — without refrigeration. They take out the water and the curd, ship a non-spoilable "butter oil". It becomes fresh butter again when skim milk, salt and water are added. Food-freezing equipment, for commercial and home uses, is sure to be a big business after the war. Home equipment at mass production prices can and will revolutionize the food supply problem in all electrified areas of rural America. There are said to be some 4,000 frozen food "locker plants" operating already — a set-up which, economically, is about midway between buying frozen foods at the store and "rolling your own" with home equipment.

The biggest supply of rubber is in the tires and tubes now on motor vehicles in use. It is estimated to amount to at least 1,150,000 tons. Hence the emphasis on the urgent need for conserving it. But people who should know better continue to talk as if this entire amount would be lost unless national gasoline rationing is adopted. Fact is that when a tire is "worn out" about 80 per cent of the original rubber is still in it. If passenger car mileage were cut in half by gasoline rationing or other restrictions, it is competently estimated that the saving of reclaimable rubber would be no more than 47,000 tons or about 6 per cent of the rubber now in passenger tires and tubes. In letting in the light on the rubber situation, maybe the Baruch committee will make contact with that fact, among others.

The wage differential which has been a big factor in shifting so many industrial plants—notably textiles—to the South is on the way out. Government policy and union policy for some time has been to narrow the differential. That's the first step. Later demand will rise for full equalization. Latest instance is cotton textile wage case before the War Labor Board. It is expected soon to adopt unanimous panel recommendation for increase and reduced Southern differential. That is, Southern workers will get a bigger rise than Northern. But the pro-New Deal solid South is still the toughest of all anti-union areas and its ramparts will not crumble easily or quickly.

Remember last winter's anticipatory worries over "conversion unemployment" in the auto industry? It was about 80 per cent exaggerated, and at that was quickly over. Today there are about 565,000 armament workers employed in the Detroit area, against peak auto production employment of 430,000 in 1941. There will be a further large expansion in Detroit arms output and employment over the next six to nine months, as raw materials allocation is put on an effective basis. Most of the new labor will not be had by migration from other areas or Government compulsion, but simply by inducing more women into factory work. In this respect, good pay for relatively light work can work wonders.



MAKING FIBRE FROM MILK. In these 4 "tapes" are thousands of strands of "Aralac" fibre, a product of National Dairy Products Corporation.

The REVOLUTION In Raw Materials

BY LAURENCE STERN

In the intricate sequences of production for war—or for peace—raw materials represent the starting point and hence are basic in the most literal meaning of the word. And of all the implications of total war, none can be more far-reaching than the revolutionary changes brought about in the supply and character of raw materials—and the uses thereof both in industrial fabrication and the ultimate consuming markets.

The net effect of a great war is: (1) to create an urgent shortage of materials; (2) induce a large and permanent expansion in the sources of materials supply, and (3) leave the post-war world confronted with a plethora of basic commodities whose producers must either struggle for markets at increasingly competitive prices or seek "protection" from the Government.

In these respects we shall see the history of World War I repeated—only more so and with important shifts in emphasis. As regards most of the older materials, such for example as farm produce, steel, copper, lead, zinc and oil, we shall see a smaller *relative* expansion than was induced by the World War. In the main—despite the impetus given to our previously small chemical industry—that war merely expanded the supply of the familiar, traditional materials. Not so this time. By far the greatest relative expansion of sources of supply will be in the various synthetics and in the lightweight metals, magnesium and aluminum which prior to the war had had limited commercial application.

Thus the present war will not only expand greatly our total supply of materials but will radically broaden the range of materials choice of the industrial fabricator, and drastically alter the pre-war competitive relationships of the various industrial materials to each other.

Today, of course, we are in the first stages of this new chapter of revolution in commodities and commodity markets—the period of acute shortages, along with urgent expansion of the sources of supply of the most needed war materials.

Not so long ago the Administration and the public were rejoicing over the attainment of real mass production of arms. We were "over the hump" in war production. Glory be! Then it began to dawn on the W P B—somewhat belatedly—that mass output of arms had brought us face-to-face, much sooner than had been foreseen or allowed for, with the most difficult bottleneck of all: inadequate supply of raw materials, especially steel, copper and alloying metals.

So the WPB began to trim sail. Some weeks ago it

quietly let it be known that new war-plant construction projects would be abandoned so far as practicable. It was intimated that, with few exceptions, projects which could not be completed by the spring of next year would be cancelled. This publication discussed the significance of that change of policy in a feature article at the time. But at that time WPB itself, if we can judge by its actions, only dimly realized the full scope of the materials problem as it has now developed. Initially, only a few construction projects, in or but slightly beyond the paper stage, were actually cancelled.

Very recently, however, the urgency of the materials shortage was dramatized to the public by cancellation of the celebrated Higgins shipbuilding project. The ships are urgently needed. This yard was off to a good start. Deliveries were scheduled to begin late *this year*—not next year—at a monthly rate not much less than half that of all present deliveries of the entire shipbuilding industry! Well, it was a nice dream on the part of the Maritime Commission and the WPB; and, judging from his past performance record, Higgins would have "come through"—but there just wasn't enough steel in sight or in prospect.

Today one sees further dramatization of the problem in the newspapers almost each day in brief accounts of 500 war workers being laid off here for lack of materials, 1,000 there, 1,500 some place else. Washington makes no secret that the difficulty is approaching, if it has not reached, actual crisis stage; with rising fear that important numbers of war plants may have to curtail operations. It is also no secret that WPB is frantically exploring every possible corrective expedient—while the procurement branches of the Army and Navy are itching to take over the whole job.

Though it seemed very difficult a year ago, it can now be clearly seen that establishment or conversion of the factory facilities was the easiest part of the production problem. That part of it was indeed handled well by Mr. Nelson and his associates, despite the belated start in conversion. But the accelerating raw materials shortage does not speak at all well for the quality of WPB planning. In short, this essential matter is a bad mess as it now stands.

Generally speaking, the WPB and all the other agencies involved—including Mr. Henderson's OPA—overestimated the prospective supply of raw materials for war purposes or underestimated the amounts that would be required for the projected production schedules, which amounts to the same thing; while on the other hand the prospective supplies for civilian uses were underestimated.

The stores are still bulging with civilian goods which, according to earlier predictions, were to be exhausted by now. For example, you can still buy aluminum ware and many other "hard" items. It was forecast that tropical worsteds would be scarce this summer and that little all-wool clothing would be available this autumn. Despite large rise in consumer demand—and cut-price sales at present—the merchants will have a carry-over of tropicals; and it is now generally conceded that shortage in all-wool apparel will not be felt before next spring, and probably not as acute even then as had been predicted. Fantastic estimates were issued on war needs for paper and paperboard, and conservation campaigns were launched. Now the paper industry is down to 80 per cent of capacity, with paperboard alone down to 74 per cent; and the industry is preparing an advertising program urging the civilian uses of paper. The impending shortage in civilian shoes also was exaggerated. Last year the Government called urgently for a greatly expanded production of cheese to supplement our diet and that of our Allies; and some 174 dairy establishments started making cheese for the first time in 1941. Today the cheese market is glutted, prices have skidded down.

Aluminum Co. of America

Aluminum-making capacity will have to expand more than five-fold to meet the new demands being made on this relatively new raw material for which new uses are constantly being found.

the Government is buying much less—and some 131 plants have either shut down or switched from cheese production to butter or dehydrated milk.

But with materials for the ravenous maws of the war plants—of which steel is the most primary bottleneck the situation is just the opposite. There is nothing imaginary about this shortage—and yet the strange fact is that nobody, including WPB, really knows its precise dimensions.

The great inadequancy of the WPB's loose system of materials control and allocation is now increasingly coming home to roost. Hence—the war-plant slowdowns; the continuing non-essential consumption of scarce materials not only by civilians but also by wasteful Army and Navy uses; the growing conflict of choice between bombers and cargo planes or between naval ships and merchant ships; and, finally, the position of the highest military command in attempting to make the most basic strategic decisions without adequate knowledge of the true production limits confronting us.

The spot light is now focused on synthetic rubber and its large-scale possibilities as a substitute. These are sheets of buna-N being cut into strips and rolled.

Standard Oil of N. J.

In view of what the German and Japanese armies have accomplished—backed by a steel production far smaller than our present 88,000,000 tons a year—it seems strange to the layman that there can be a real steel scarcity here. Of course, it is *possible* that, even with the most efficient utilization, this vast output, and the enormous output of non-ferrous metals, would still not suffice for the astronomical quantities of ships, planes, tanks, guns, trucks, shells, etc., that have been scheduled for production. *If* this is true, there are only two alternatives, or a combination of them, open to us: (1) scale down the war production program and put increased emphasis on the offensive weapons that promise to yield the earliest dividends; or (2) expand the sources of raw materials production. The latter would consume crucial time—also materials and tools—and at best could provide only a partial solution of the scarcities over the next year.

But, despite the paucity of concrete information available to the lay observer, it seems almost certain that this whole premise is wrong. When one notes official estimates of the specific amounts of steel or other metals required for one Liberty ship, or one four-motored bomber, or one M-4 tank, etc., it seems incredible that there are not enough materials for the program. Without doubt the most feasible and promising remedy open to us is simply a more effective and better coordinated utilization of the presently available materials. After all, the vast supply is one that the Germans and Japanese would give their eye-teeth to have. After all, our steel-making capacity—forgetting that of the British Empire and Russia—*is more than twice that of the Axis nations.*

Does the WPB have up to date information as to exactly how much steel, and of what types, is in each warehouse? Does it know how much steel, and of what types, each fabricating plant has on hand and what the relationship is of each of these plant inventories to monthly or weekly production schedules? According to competent Washington observers, the answer is no. Yet without precise—and as nearly current as possible—data of this kind on steel and all other key war materials the WPB will remain in a basically helpless position.

Marvelous machines and highly skilled labor do not by any means provide the whole answer to maximum factory production. As demonstrated by all of the great industrial enterprises, the smoothly coordinated flow of materials—getting the right materials in the right quantities to the right place at the right time—is absolutely essential. Without it, you don't get production. You get chaos. And chaos is what WPB has got in our over-all materials supply situation—which explains growing agitation for full military control of supply and production.

du Pont

Plastics not only have an amazing variety of uses, but differ from "natural" raw materials in that they are "tailor made" to almost innumerable specifications.

Of course, one must acknowledge and emphasize that the job of really coordinating the flow of all key materials to all war plants is a truly staggering one—but nevertheless it will have to be done, or at least much more closely approached than is the case now.

Some additional materials can still be diverted from civilian uses; the supply could be further stretched if the Army and Navy would really come down to earth in their extravagant specifications; and more effective scrap salvage would help. But even if it were theoretically possible for such adjustments to provide all the materials necessary for war purposes, it by no means follows that the basic problem of coordinated control and allocation would thereby be solved. For example, if the existing WPB system can not allocate 6,000,000 tons of steel a month to the plants that need it, when they need it, there is no reason to suppose it could allocate 8,000,000 tons any more efficiently.

If you think the writer's criticism is unduly harsh, consider the following digest of a statement just recently made to the New York Times by an authorized, but unnamed, spokesmen for WPB itself:

"The shortage of metals was so acute in June that the supply of available steel was only 5,300,000 tons, whereas the amount necessary for filling orders was 9,000,000 tons. . . . The chief remedy for the shortage and the chief task before WPB this summer will be the balancing of the war production program. The shortage is piecemeal, not over-all. . . . Some WPB officials maintain that the balancing of the program will be impossible until and unless the overlapping of jurisdiction between WPB and the Army and Navy Munitions Board is ended. They contend that the shortage of raw materials is unreal, since it is a shortage only if considered in relation to an unreal demand. . . . In June, they say, if 9,000,000 tons of steel had been available, the supply could not have been utilized by the existing plants. . . . These officials further contend that the total of war orders has been swollen by the fact that the Army and Navy field officers have given high ratings indiscriminately. The remedy, they maintain, is supercession of the present priorities-plus-allocations system by a straight allocation system which will give to war manufacturers what they require only when they actually require it, and not allow them to build up huge inventories before they start production."

Thus the buck is passed back and forth between WPB and the Army and Navy brass hats—while the war goes steadily and dangerously against us.

Meanwhile, American industrial genius is working miracles in the development of "substitute" products for both civilian and war purposes. The most common and basic materials which, in varying degrees, are now replacing metals, rubber and other "shortage" materials, are wood, glass, plastics, plywood, ceramics and paper pulp derivatives. A few of the hundreds of examples of individual application follow:

Raincoats waterproofed with plastic . . . Men's hats made of specially processed cotton yarn . . . Paper containers with cellophane linings that hold liquids . . . Glass mail boxes . . . Washing machine agitators of glass instead of aluminum . . . Bath tubs of tile or moulded plywood . . . Plastic shoestring tips . . . Flue pipes of impregnated fibre . . . Tires for small industrial trucks made chiefly of woodpulp . . . Sleeve bearings made of powdered iron . . . Couplings and shackle bearings containing fibre composition instead of rubber . . . Blankets, buttons, paint and dozens of other articles that can be derived partly or wholly from casein which in turn is derived from milk.

Post-War Prospects

What of the future?

It would take a volume to discuss in adequate detail even as much of the war-speeded technological revolution in materials supply as is already out of the laboratory stage—and which beyond any doubt will radically affect the industrial fabricating techniques, the consuming markets and the investment values of the post-war world. Indeed, it would take a lengthy article to do justice, individually, to the status and potentialities of plastics, synthetic rubber, synthetic fibres, the wonder metal magnesium and various others—including such old materials as glass, wood and paper which only in relatively recent times began (*Please turn to page* 513)

1942 Midyear SPECIAL

Security Appraisals and Dividend Forecasts—PART THREE

Outlook and Ratings for Individual Merchandising, Non-ferrous Metal, Iron and Steel, Building Supply and Liquor Companies

In the interest of safeguarding accumulated capital and maintaining a satisfactorily dependable income from security investments, it has always been advisable for investors to re-appraise their holdings periodically. It should scarcely be necessary to emphasize that this is even more essential now, under the radical and numerous industrial changes in a war economy.

It is to meet exactly this need that The Magazine of Wall Street, as for many years past, presents its Security Appraisals and Dividend Forecasts at six-month intervals. Our subscribers in the aggregate hold securities of hundreds of different corporations. Extensive analysis would permit coverage of too few to be adequately useful. Hence our effort on following pages is to present the most pertinent information and ratings, on the maximum possible number of companies, as concisely as possible for the convenience of our readers.

Under the pending tax program, the most influential single factor bearing upon prospective corporate earning power is the company's "tax credit." Hence, this is included in all individual company tabulations on following pages, where possible. Where for special reasons its accurate calculation is impossible, we omit it. The credits are figured on basis of 45 per cent normal and surtax.

In addition we include a general tax rating, as follows: a.—"Should be able to absorb higher taxes without undue difficulty"; b.—"Not likely to be subject to heavy excess profits taxes"; c.—"Higher taxes will probably reduce earnings"; d.—"Higher taxes threaten current dividend rate"; e.—"Higher taxes may preclude larger dividends."

The key to our regular ratings of investment-market quality and current earnings trends—last column in the tables, preceding comment—is as follows: A—High Grade investment quality; B—Good; C—Medium Grade; D—Marginal; E—Low Grade; while the accompanying numerals denote current earnings trends thus: 1—Upward; 2—Steady; 3—Downward. For example, A1 denotes a high grade investment equity with an upward current earnings trend, D3 a marginal issue with a downward earnings trend.

Selected issues which are recommended for safe income are denoted with a star symbol preceding company's name; issues favored for appreciation are marked with a dagger; and issues which we think promising for both income and appreciation are marked with an asterisk. Timing of purchases for appreciation should, of course, accord with our general trend advice given in our regular market analysis in the forepart of each issue.

Lower 1942 Merchandising Earnings Indicated

Strong Cash Positions Aid Dividend Prospects

THE backwash of the strong consumers' buying wave of 1941 and early 1942 has had varying effects upon the different divisions of the merchandising trades. Progressive diminution in the rate of gain in sales over those of a year earlier—or supplanting of the gain by actual sales decline in comparable periods—has characterized recent operations in virtually all retail divisions.

For example, a group of leading variety chains reported sales gains in the total of nearly 15% for July, 1942, over the similar 1941 month, whereas for the first seven months of this year the same concerns sold over 17% more merchandise than during the corresponding period of 1941. In the grocery field, the disparity has been even greater, with five leading companies recording an increase of only slightly more than 18% in July over the same month of 1941, while for the seven months ended with July, 1942, these organizations registered gross sales gains of 29%. More noteworthy still was the actual decline of nearly 15% in sales of the country's three outstanding mail order organizations during July, from those of the corresponding 1941 month, while for the first seven months of 1942 this trio registered a total gain of nearly one-half of one per cent.

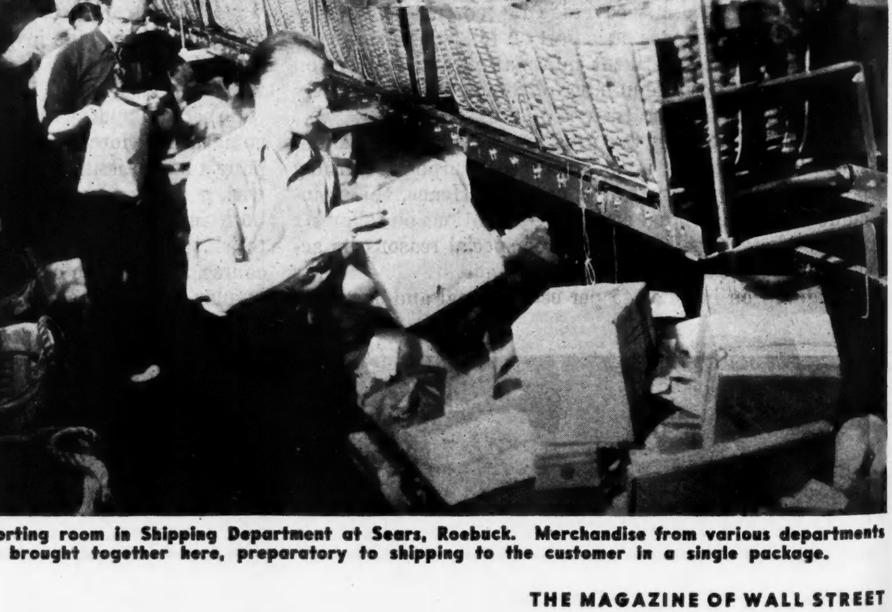
Failure of retail sales to maintain the gains established earlier in the year is attributed to various economic factors. Fears of perpendicular price rises which overspread the country last year induced heavy purchases of a wide range of items by consumers substantially in excess of actual needs. Consequently, many of them still possess ample stocks of goods and new purchases will necessarily be limited in character. Moreover, numerous consumers who had built up their merchandise supplies in anticipation of price advances have confined purchases to current needs since establishment of price ceilings.

Increasing scarcity of certain types of durable goods has reduced the number of items on the shelves of some retail organizations, and conversion of many industries to war work, involving discontinuance of manufacture of numerous articles for retail distribution, will aggravate this situation in future months. Another important factor is the aggressively conducted war bond campaign, which has absorbed surplus funds to a point where purchases of consumer goods have been considerably affected. The extent to which the tightening of credit regulations may have impeded the flow of merchandise toward the ultimate consumer is debatable, with numerous leaders asserting the effect of such regulations upon their business has been of little consequence, inasmuch as the new credit rules were essentially similar to those already prevailing in many stores.

Buying Power to Continue High

Notwithstanding higher personal taxes and accelerated purchases of war bonds, consumer purchasing power will continue substantial throughout the duration. It is pertinent, therefore, to assess the prospects of the various retail divisions, to determine how each may benefit from expanding public expenditures.

While the backlog of furniture manufacturers is believed to be large, there has been a perceptible decline in new business during the past few months. Moreover,



Sorting room in Shipping Department at Sears, Roebuck. Merchandise from various departments is brought together here, preparatory to shipping to the customer in a single package.

Position of Leading Merchandise Stocks

Company	Estimated Tax Credit	Tax Rating	Earned Per Share 1941	Earned Latest Interim	Year Ago	Estimated 1942 Net Per Share	1942 Divds. to Date	Investment Market Rating	COMMENT
Allied Stores	0.42	b	Ja1.57	Ja2.27(12)	....	....	0.45	C-2	Long-term sales prospects largely dependent on ability later to replenish inventories. Taxes may affect fiscal year results, but maintenance of recently established common dividend rate is indicated.
American Stores	1.10	b	1.66	NF	NF	1.50-1.75	0.50	C-2	Sales aided by acquisition of chain of 128 supermarkets last year. Advantages of operating economies may be offset by rise in taxes. Further dividends at prevailing rate are expected.
Arnold Constable	0.70	b	Ja1.34	Ja1.29(12)	....	....	0.50	C-3	Possibility of shortage of certain merchandise influences long-term outlook. Price ceilings may also affect operating results. However, dividends should approximate last year's disbursements.
Best & Company	2.40	c	Ja3.63	Ja3.49(12)	....	....	1.60	B-3	Normal clientele rather vulnerable to increased personal taxes. Replacement of inventories may prove onerous in future months. Financial condition is strong, and maintenance of regular dividends is likely.
Davega Stores	0.50	b	Mr0.73	Mr1.72(12)	....	....	†0.30	D-2	Company enjoys excellent inventory position, though bank loans have been substantially increased. Higher taxes will affect present fiscal year results. Near-term common dividends are uncertain.
Federated Dept. Stores	2.10	b	Ja2.90	Ja2.79(12)	....	....	1.15	C-2	Sales in Ohio area, favored by defense operations, should be well maintained. Eventually, merchandise scarcities may impede operations. Another small common payment probable before year-end.
First National Stores	2.42	b	Mr3.06	Mr2.91(12)	....	....	1.875	C-2	Inventories in general are ample, although shortages in certain popular lines may retard sales progress later this year. Bank loans are large, but regular dividends may be continued.
Gimbel Brothers	1.10	b	Ja1.21	Ja2.08(12)	....	....	None	D-2	Higher costs and taxes, price ceilings, and eventual merchandise shortages, seem destined to affect present fiscal year's operating results. No dividends on common are in prospect.
*Grant, W. T.	2.30	b	Ja2.68	Ja3.45(12)	....	....	1.65	B-2	Inventories are substantial, aiding sales prospects over next few months. Heavier taxes will doubtless depress fiscal year profits. Regular common dividend will probably be maintained.
*Green, H. L.	2.75	b	Ja3.46	Ja3.95(12)	....	....	2.00	B-2	Merchandise position is currently satisfactory, but shortages may develop in future months. Meanwhile, sales prospects are good, and no alteration in regular dividend rate is anticipated.
Interstate Dept. Stores	1.85	b	Ja1.28	Ja3.23(12)	....	....	0.75	C-2	Geographical store distribution favors operations. Inventory position presently satisfactory. Price ceilings and taxes may reduce fiscal year earnings. Current common dividend basis may be continued.
*Jewel Tea	1.80	c	2.60	NF	NF	1.75-2.00	1.00	B-3	Retail store outlook is encouraging, though coffee and tea rationing will probably affect wagon route revenues. Common dividends for year are unlikely to reach 1941 payments.
Kresge, S. S.	1.35	c	1.72	NF	NF	1.25-1.50	0.90	B-3	Large consumer purchasing power benefits sales outlook. Inventories are now adequate, but some shortages may occur later. Only moderate drop seen in year's earnings. Continuation of regular dividends expected.
*Kress, S. H.	2.15	c	1.97	NF	NF	1.50-1.75	1.20	B-3	Further sales gains are indicated, resulting from expanded consumer income. Inventory and cash positions are satisfactory. Regular common disbursements anticipated.
Lerner Stores	3.05	c	Ja3.18	Ja3.47(12)	....	....	1.50	B-2	Diminution in sales gains seen for future months. Moreover, difficulty may be encountered later in obtaining merchandise. Financial position is sound, and usual common dividend is likely.
Macy, R. H.	1.55	c	Ja2.57	Ja2.20(12)	....	....	1.17	B-3	Sales should be maintained at satisfactory levels, though further merchandise shortages are foreseen. Net for 1942 may be lower, but customary dividends are probable.
Marshall Field	1.00	c	1.95	0.42(6)	0.67(6)	1.00-1.25	0.60	C-3	Retail and textile mill divisions prospects are favorable. No great difficulty seen in securing later merchandise supplies. Higher taxes may reduce year's earnings. Small extra common payment possible before year-end.
*May Dept. Stores	2.25	c	Ja4.10	Ja3.76(12)	....	....	2.25	B-2	Strong inventory position and strategic store locations aid sales prospects. However, higher expenses and taxes will influence year's results. Large bank loans may impel more conservative dividend policy.
McCrory Stores	1.45	c	2.24	2.21(6-12)	2.21(6-12)	1.75-2.00	0.50	C-2	Heavy taxes are offsetting advantages of sales gains. 1941 year-end inventories were ample, but shortages may develop subsequently. No change in common dividend rate anticipated.
McLellan Stores	0.70	b	Ja1.09	Ja1.42(12)	....	....	0.40	C-2	Location of large portion of stores in agricultural regions benefits near-term sales outlook, although difficulty in securing certain merchandise may retard progress in future months. Another distribution on common is probable before end of year.
*Melville Shoe	1.80	c	2.64	NF	NF	2.00-2.50	1.50	B-3	Sales gains in first-half year may be sharply reduced by impending shortage of supplies. Contraction in profits expected for 1942. Strong cash position should permit continued regular common payments.
*Montgomery Ward	2.90	c	Ja4.14	Ja4.01	....	....	1.50	B-3	Year-end inventories were large, but replacements in "hard" lines will be difficult in future. Fu ther sharp sales declines appear inevitable. Recent common dividend basis may be maintained.
*Murphy, G. C.	3.85	b	7.20	NF	NF	6.25-6.50	2.00	B-2	Ample inventories and favorable store locations should aid in holding sales close to recent high levels. Continuation of regular common dividend is indicated.
National Tea	1.48	c	0.46	0.03(6)	0.10(6)	NE	None	D-3	Sales improvement should continue, although price ceilings will result in narrower proft margins. Year's profits may be under 1941 figures. Resumption of common dividends not indicated for near future.
*Newberry, J. J.	3.20	c	6.40	NF	NF	4.75-5.00	1.80	B-3	Outlets are well diversified and inventory situation is sound. Replacement of certain lines, however, may prove difficult in later months. Lower profits expected for 1942, but no alteration in common dividend rate is in prospect.
*Penney, J. C.	3.80	c	6.24	NF	NF	4.50-4.75	1.50	B-3	Strong inventory position should contribute to maintenance of sales expansion over near future. Larger portion of merchandise consists of textiles, thus alleviating later replacement difficulties. Small extra on common is possible later this year.
Reliable Stores	0.95	b	1.50	1.20(6)	1.26(6)	1.75-2.00	0.25	C-2	Diminution of recent sales enhancement may ensue, when efforts are made to secure new supplies of certain merchandise. Continued regular common dividend is probable.
*Safeway Stores	2.50	b	4.91	NF	NF	3.50-3.75	1.50	B-2	Military and lease-lend canned goods needs may affect normal sales in future months. Contraction in year's profits is anticipated, though regular common payments should continue.

as a consequence of cancellation of orders, operations in certain plants are reported as lower than during the early months of the year. The abrupt decline in residential construction is also an adverse factor, as is the decrease in new homes set up as a sequel to the vast expansion of personnel in our armed forces. Until recently, operations of the furniture makers had been facilititated by ample supplies of domestic hardwood. But, with the increasing substitution of wood for metal in war production, allocations of certain types of wood have become necessary. Sales of such prominent retail furniture organizations as Reliable Stores Corp. will consequently be adversely affected by inability to obtain adequate supplies of merchandise.

Production of stoves was discontinued as of July 31, 1942, and many plants are now engaged in output of various armament lines.

In the grocery division, where the July sales gain failed to keep pace with the advances registered earlier in the year, prospects are in general considered favorable. No shortages in grocery products are anticipated during the next few months, while the satisfactory crop prospects assure ample supplies for packing purposes, with the aggregate probably approximating the 1941 total. A substantial portion of this new pack will be absorbed by the Government, which has instructed packers to divert 35% of the tomato, snap bean, pea and corn packs to military purposes, as well as to lend-lease shipments. Inevitably, there will develop scarcities in civilian supplies of canned goods, but these are unlikely to assume important proportions over the remaining months of this year.

Merchandise Mart, Chicago, built by Marshall Field.

Inventories of First National Stores, Inc., operating a chain of over 1,900 grocery stores, principally in New England, were in excess of $20,000,000 at the close of the fiscal year ended March 28, 1942, being equal to 54% of all assets. The company is in excellent position to conduct normal operations, although scarcities in certain lines may develop by the end of 1942. National Tea Co., with over 1,000 stores, about half of which are combination grocery and meat markets, also reports a satisfactory inventory position. One of the nation's larger grocery chains, Safeway Stores, Inc., with nearly 2,800 units in operation, also disclosed an unusually strong inventory position at the end of 1941. However, scarcities will probably develop in future months as a sequel to military demand factors.

Sales among the variety chain store organizations have been well maintained, and operating margins are satisfactory despite increased wages and higher merchandise costs. Strong inventory positions have also contributed to the improved exhibit. Over 44% of the total assets of W. T. Grant Co. consisted of merchandise on hand as of January 31, 1942, while cash and Government bond holdings were equal to 75% of current liabilities.

S. H. Kress & Co. is another of the chain store organizations which enjoyed a strong cash and inventory position at the close of last year. Sales are currently running about 15% over those of a year ago, and no serious shortages are indicated for the near future. Some dividend has been paid each year by this concern since 1918. Among the other (*Please turn to page* 518)

Position of Leading Merchandising Stocks—Continued

Company	Estimated Tax Credit	Tax Rating	Earned Per Share 1941	Earned Latest Interim	Year Ago	Estimated 1942 Net Per Share	1942 Divds. to Date	Investment Market Rating	COMMENT
*Sears, Roebuck	3.75	c	Ja6.32	Ja6.35(12)	....	....	2.25	B-3	Near-term sales prospects are aided by large inventories, though eventual merchandise shortages may influence year's results. Usual dividend, plus small extra, probable.
Shattuck, F. G	1.20	c	0.77	24(6)	0.22(6)	0.25-0.50	0.20	C-3	Candy production may be affected by cocoa and sugar rationing. General sales situation satisfactory, but higher costs may reduce year's profits. Regular dividends indicated.
Spalding, A. G	0.52	c	Oc0.86	NF	NF	NF	None	D-2	Company is reported converting certain equipment to war output. Shortages in some civilian lines are being experienced. No common dividend in near-term prospect.
Spiegel, Inc.	1.10	c	0.91	d0.60(6)	0.21(6)	NE	0.15	C-3	Altered sales terms and shortages in certain lines believed responsible for recent unfavorable exhibit. Stress upon cash business should accelerate liquidation of receivables in future months, thus facilitating resumption of payments on common.
Woolworth, F. W.	1.30	c	2.69	NF	NF	1.75-2.00	1.20	B-3	Vast buying power of low-income groups should sustain sales improvement, though progressive restriction in new supplies may later diminish sales gains. Usual dividends are anticipated.

NF—Not available. Ja—Year ended January. Mr—March. Oc—October. †Dividend paid within past 12 months period. b—Not likely to be subject to heavy excess profits taxes. c—Higher taxes will probably reduce earnings. *—Recommended for income and appreciation. ★—Recommended for safe income.

Profit and Dividend Drop Expected in Mining Group

Operations High Except in Gold and Silver

Impelled by unprecedented war-time requirements, operations in many divisions of the mining industry (with the conspicuous exception of gold and silver) are proceeding at capacity rates, with little diminution indicated for the duration. Copper, lead and zinc are being mined at rates never before attained. Ordnance demand for these metals has expanded so tremendously that supplies for civilian purposes have been materially reduced or cut off entirely.

Corresponding enhancement of operations has also occurred in the metal fabricating industries, with unfilled orders at the highest levels in history. In view of increasing raw material shortages, however, it is doubtful whether the recent rate of operating gain in this industry can be maintained.

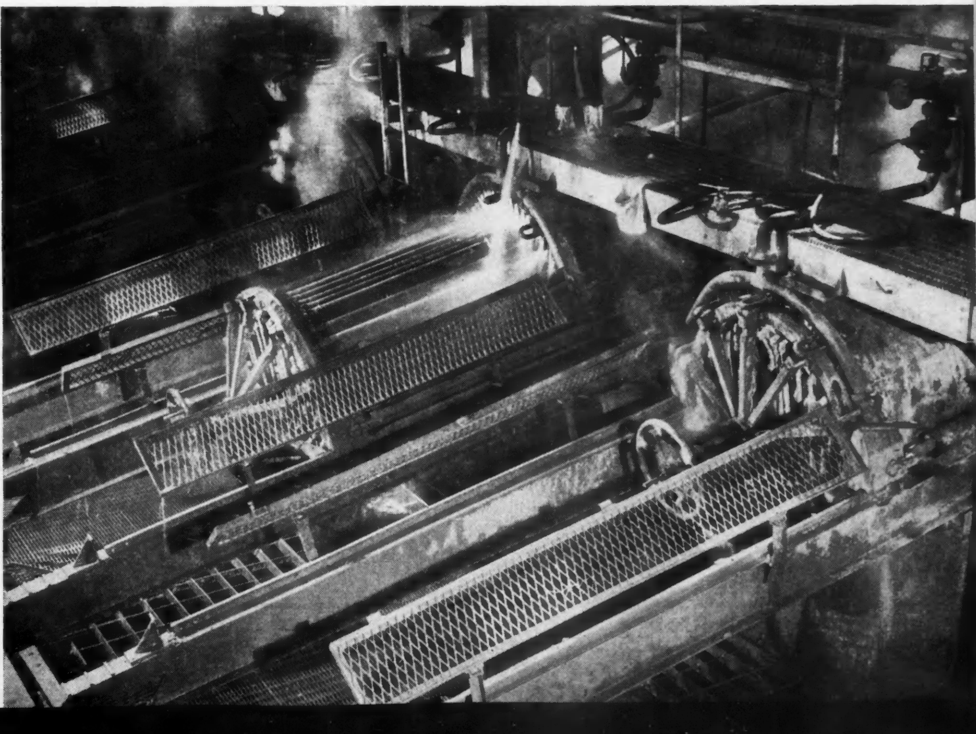
Output of domestic refined copper for this year will probably surpass the total of 1,066,000 tons mined in 1941. Salvage activities will add an estimated total of over 250,000 tons of copper over the next six or eight months. Inauguration of production at the new Phelps Dodge Morenci mine at Clifton, Ariz., last January has been an important factor in the operating progress registered by this company during the first half of 1942, although extremely heavy taxes affected earnings during that period. The fabricating divisions of this company, engaged in production of rods, wire, cable, castings, forgings, etc., are running at capacity, and should become increasingly important from a revenue standpoint.

Anaconda Copper Mining Co., is the world's largest completely integrated copper producer. Operations of both the mining and fabricating divisions will continue close to capacity for the duration, but costs and taxes will prevent corresponding gains in profits. In fact, net income for the first quarter of 1942 was under that for the similar months a year earlier. During June, 1942, the Anaconda management took advantage of the company's unusually strong financial position to retire outstanding serial bank notes in the amount of $10,032,000, and, at the same time, provide for redemption on Oct. 1, 1942, of the remaining outstanding debentures, in the amount of $944,000.

Government Buying South American Copper

Among the leading low-cost copper producers is Cerro de Pasco Copper Corp., with properties located in Peru. It is estimated that monthly output of this company's properties is approximately 1,000,000 ounces of silver, 5,500,000 pounds of copper, 1,000 tons of zinc concentrates and 3,750 tons of lead. An ample market exists in the United States for all of the output of Cerro de Pasco. Moreover, Latin-American copper production is being encouraged by the basis price of 11.75 cents per pound which is being paid by the Metal Reserves Company, a Governmental agency, compared with 11.25 cents late last year, and 10 cents per pound in the earlier

Aluminum Co. of America is rapidly expanding all facilities. In this plant bauxite is converted into aluminum oxide, or alumina.



part of 1941. Other companies to profit in this manner are Anaconda and Kennecott Copper Corp.

Zinc smelting capacity has been materially expanded during the past two years, as a sequel to which it is expected that total 1942 zinc supplies will be in excess of actual war requirements, with a considerable tonnage remaining for commercial utilization. Zinc, combined with copper, makes brass, and virtually all of American brass production is needed for shells and cartridge cases. It is estimated that zinc production will approximate 950,000 tons this year, or about 10% over 1941 output. Leader among the producers and fabricators of zinc is New Jersey Zinc Co., which reported profits of $2.26 per share for the first half of 1942, compared with $2.81 for the similar 1941 months. Other important zinc producers include Eagle-Picher Lead Co., St. Joseph Lead

Position of Leading Metal Stocks

Company	Tax Rating	Earned Per Share 1941	Earned Latest Interim	Year Ago	Estimated 1942 Net Per Share	1942 Divds. to Date	Investment Market Rating	COMMENT
Alaska Juneau	c	0.49	NF	NF	0.10-0.25	None	C-3	Operations are adversely affected by higher unit costs, loss of employes to war industries, and fixed price for output. No dividends imminent.
Aluminum, Ltd	b	20.81	NF	NF	15.00-16.00	4.00	B-3	Tremendous military demand compels enlargement of facilities. High Canadian taxes will restrict profits. Dividends on recent basis probable.
Alum. Co. of Amer.	b	22.90	NF	NF	16.00-17.00	2.00	B-3	Production in owned and in Government-operated plants rapidly expanding. However, price reductions, plus higher taxes and wages, are unfavorable factors. Conservative dividend policy indicated.
American Metal Co., Ltd.	b	2.24	0.72(6)	1.01(6)	1.00- 1.50	0.50	C-3	Income prospects generally satisfactory. Common dividends for 1942 may be but slightly under last year's total.
*Amer. Smelt. & Rfg.	a	5.59	NF	NF	4.50- 5.00	1.50	B-2	Capacity operations will prevail for duration. Metal price situation favorable. Only moderate drop seen in 1942 net income. Dividends on common may reach $3 for this year.
Amer. Zinc. Lead & Smelt.	b	0.52	0.57(6)	0.32(6)	0.50- 0.75	None	D-2	High operating levels continuing. Preferred arrears and large bank loans reander near-term common dividends unlikely.
*Anaconda Copper	a	5.01	1.15(3)	1.34(3)	4.00- 4.50	1.50	B-2	Military needs assure continued capacity operations. Higher metal prices prevailing. Good earnings report indicated for 1942. Dividends can be continued on existing basis.
Anaconda Wire & Cable	b	5.94	2.05(6)	3.34(6)	3.50- 4.00	1.00	C-3	War orders should assure adequate materials allotments. Continued liberal dividend policy indicated.
Cerro de Pasco	c	2.17	NF	NF	1.00- 1.75	3.00	B-2	Ample United States market available for all output and accumulated stocks. 1942 earnings will probably be lower, but dividends for 1942 may approximate last year's payments.
Chile Copper Co.	a	3.80	NF	NF	2.75- 3.00	2.00	C-1	Government agency will buy all South American copper for duration. Shipping restrictions unfavorable factor. Further diivdends probable.
*Climax Molybdenum	a	3.55	2.18(6)	1.57(6)	4.00- 4.50	0.60	B-2	Sales prospects optimistic. Earnings outlook sanguine. Strong finances aid to liberal dividend policy.
Dome Mines	b	bdd1.98	0.77(6)	NF	1.00- 1.50	1.70	C-3	Gradual decline in normal operations expected, because of materials and labor shortage. Lower dividend basis probable.
*Eagle-Pitcher Lead‡	a	1.56	1.01(5-6)	1.06(6)	1.50- 2.00	0.30	C-2	Mining and fabricating activities at high levels. Profit outlook excellent. Maintained existing common dividend basis indicated.
Homestake Mining	b	2.83	1.14 (6)–1.40		1.75- 2.25	3.00	C-2	Materials shortages and higher taxes adverse to operating and profit outlook. Dividends under 1941 total anticipated.
Howe Sound	b	bdd3.85	bdd1.88(6)	bdd1.46(6)	2.75- 3.00	1.50	C-2	Capacity operations seen in all divisions. Tax burden may moderately influence year's earnings. Small extra dividend probable near year-end.
Hudson Bay M & S	b	bdd2.16	bdd1.27(6)	bdd1.20(6)	2.00- 2.25	1.00	C-2	Increasing demand fully utilizing expanded capacity. British contract position favorable. Continued existing dividend basis probable.
Inspiration Cons. Copper	b	1.92	E0.76(6)	0.83(6)	1.00- 1.50	0.75	C-2	Plant capacity being increased. Ample market for all output. Price situation satisfactory. Dividends may equal 1941 payments.
International Nickel	c	2.22	1.03(6)	1.12(6)	1.50- 1.75	1.00	B-3	Expansion program approaching completion. Higher expenses and taxes may depress 1942 profits. Regular dividends indicated.
*Kennecott Copper	c	4.55	E2.00(6)	2.20(6)	3.75- 4.00	1.00	B-3	Manufacturing and mining operations at high levels. Earnings outlook favorable, despite heavier Chilean and U. S. taxes. Regular dividends, plus further "special" payments, anticipated.
Lake Shore Mines	c	Je1.82	NF	NF	1.25- 1.40	0.40	D-2	Labor and materials shortages suggest continuing earnings decline. Conservative dividend policy appears probable.
*Magma Copper	b	bdd3.66	bdd1.24(6)	bdd1.96(6)	2.00- 2.25	1.00	B-2	Production costs are reported averaging well over a year ago. Operations are near maximum levels. Strong finances permit liberal dividend payments.
McIntyre Porc	b	Mr4.79	Mr4.30(12)	......	NE	2.775	C-3	Mining equipment restrictions and higher costs detract from operating prospects. Conservative dividend payments expected.
Miami Copper	c	bdd1.01	NF	NF	0.50- 0.75	0.25	D-2	Operations conducted at capacity levels. However, costs and taxes are advancing, while copper prices have been fixed. Further 1942 dividends are uncertain.
N. J. Zinc	b	4.89	2.26(6)	2.81(6)	3.00- 3.25	2.00	B-2	Mining activities at generally high levels. Taxes may further depress profits, and dividends may be lower for 1942.
*Phelps Dodge	b	1.70	E1.38(6)	1.38(6)	1.50- 1.75	1.20	B-2	Copper production capacity has been greatly increased. Fabricating activities at peak levels. Profit prospects satisfactory. Dividends for year may exceed 1941 total.
*St. Joseph Lead	b	2.50	1.09(6)	1.29(6)	1.75- 2.00	1.50	B-2	Adequate market for increased output. Lead and zinc price "ceilings" are favorable. Cash position strong. Dividends will probably equal last year's payments.
Silver King Coalition	c	bdd0.32	bdd0.06(3)	bdd0.10(3)	0.15- 0.25	None	D-3	High costs and taxes impede earnings progress. Dividend prospects are uncertain for 1942.
U. S. Smelting	b	6.20	1.88(5)	1.64(5)	4.50- 5.00	3.00	C-2	Supplies and labor scarcity affecting Alaskan mines operations. Common dividends may not equal last year's total.
Vanadium Corp.	c	3.04	NF	NF	2.25- 2.75	0.25	C-1	Full-time operations for enlarged facilities indicated. Increased taxes may reduce year's profits. Lower 1942 dividends probable.

Je—Year ended June. Mr—March. bdd—Before depletion and depreciation. E—Dow, Jones & Co. estimate. NF—Not available. NE—Not estimated. ‡—Company has changed to fiscal year ending in November. a—Should be able to absorb higher taxes without undue difficulty. b—Not likely to be subject to heavy excess profits taxes. c—Higher taxes will probably reduce earnings. *—Recommended for income and appreciation.

Note—Computation of excess profits tax credits is not feasible in majority of instances because of diverse methods of presenting depletion data, which render difficult the determination of real taxable income—or because of Canadian incorporation.

Co. U. S. Smelting and Anaconda.

Lead finds wide utilization for armament purposes, as well as a substitute for the more scarce metals. Refined production for 1942 will be considerably in excess of the 635,000 tons turned out last year. Mining has been stimulated by the premium price of 9.25 cents per pound, paid under the Government's output expansion program. Largest of the American lead producers is St. Joseph Lead Co., which accounts for one-fourth of domestic and about one-tenth of world output. Notwithstanding a sales rise of 22% in the first half of 1942, tripling of taxes cut net profits to $1.09 per share, compared with $1.29 for the six months ended June 30, 1941. The experience of Eagle-Picher Lead Co. was somewhat similar, with sales for six months ended May 31, 1942, running ahead of those of a year earlier, while net income declined.

Anaconda Copper Mining Co.

Anaconda, largest completely integrated copper producer, will produce at near-capacity levels for the duration, but costs and taxes will prevent corresponding gains in profits.

Aluminum Capacity Increasing

Production of aluminum is at the annual rate of about one billion pounds, as against estimated output of 670,000,000 pounds last year. Moreover, potential capacity is being vastly increased, with most of the new plants to be Government owned, but operated by leading corporate entities in the aluminum industry. Expansion of plant facilities of Aluminum Co. of America, world's leading producer in this field, is continuing. Although no interim earnings are available, higher costs and taxes may further depress profits this year, following the 1941 drop in net income.

Production of one ton of aluminum involves the processing of about four long tons of bauxite. In 1941, less than 1,000,000 long tons of this ore were mined in the United States, while imports from Dutch Guiana were estimated at approximately 1,000,000 long tons. Inasmuch as large quantities of bauxite are employed in the abrasive and chemical industries, the question of adequate supplies for production of aluminum is of paramount importance. However, there appears to be little anxiety on that score, as a consequence of the expansion in both foreign and domestic output.

Operations in the metal fabricating industries are characterized by backlogs that would assure capacity operations for existing mills and for those now under construction for the remainder of the war, if adequate materials supplies were available. The chief handicap is shortage of copper. Notwithstanding expanded South American copper output, Federal subsidies for marginal domestic producers, and financing of operating expansion of several domestic producers by the Government, it is not believed that total copper supplies for 1942 will greatly exceed those of a year ago.

As a consequence of the red metal shortage, allocation of inventories will be compelled, in order that supplies may be available to concerns engaged in production for war purposes.

Earnings prospects for the fabricators vary, with leading concerns, such as Anaconda Wire & Cable Co., in a somewhat preferred position, as a consequence of substantial conversion to direct military output on a substantial scale.

The earnings outlook in the gold and silver groups is far from impressive. The Government provides an ample market for all that can be mined, it is true, but other factors interpose a rather serious obstacle to operating progress. Priorities on mining equipment, effects of which have already been noted in actual shortages of materials, as well as the constant loss of mine workers to essential war industries, including base metal mining, and to the armed forces of Canada and the United States, are interfering greatly with productive activities. Indications are that this trend will continue throughout the duration.

In recapitulation, the exigencies of war assure near-capacity operating levels for virtually all metal concerns but the gold and silver mining organizations, but expenses and taxes will absorb an increasingly large portion of revenues, resulting in a general trend toward lower net incomes. As a corollary, dividend payments will, on the average, in future months, be somewhat below the bases recently prevailing—and even these must be considered a partial return of capital.

Taxes and Post-War Doubts Weigh Heavily on Steels

Wide Variations In Earnings and Dividend Prospects

The function of the steel industry today is simply to turn out as much steel as can possibly be done—selling only to those to whom the Government has given war priorities, and being more or less thankful for whatever profit is left by the Federal tax collector.

As stockholders are only too keenly aware, the steel stocks have not repeated their "war baby" history of 1915-1916-1917. Earnings, in relation to the huge volume of business being done, are far smaller than they were in the World War period; and the dividends being paid do not remotely resemble any war-time bonanza.

For a couple of weeks or so in September, 1939, the steels temporarily acted as "war babies" were traditionally supposed to act—but that was that. Like most other stocks, they are substantially lower than they were during those months of the not too active year 1939 before war became a certainty. In the partial recovery in stock prices that has developed since the end of April, the steels to this writing have continued to be among the laggards.

Probably they will do better—possibly very substantially so—if the present market betterment proves to have been the start of a major untrend; but that remains to be seen. Most steels have erratic earnings and dividends records, since the industry has always been subject to wide cyclical swings in volume. Because of in-and-out earnings characteristics, steel stocks—whether market prices be low or high or medium—always are priced *at relatively low ratio to per share earnings.*

Even in 1929, when it was thought that most everybody had gone crazy with speculative optimism, United States Steel's highest price was only some 12 times that year's excellent per share earnings. Its *average* market price of 1928-1929 was less than 10 times per share earnings. Today it is priced at, roughly, 9 times probable 1942 earnings per share. These comparisons for "Big Steel" are fairly typical of most other stocks in the industry.

For the industry as a whole—but not for some of the former most profitable units, such as Inland Steel and National Steel—earnings for the rest of the war, despite very high taxes, probably will be somewhat larger than they averaged during the pre-war years 1935-1939. But in no event—because of high taxes—can earnings be really "juicy." That being so, one must ask: If the steels can't earn handsome profits now, when can they?

Ingot molds of steel, from 2 to 10 tons in weight. If a housewife were to make a cake with equal precision, she would measure the ingredients not by teaspoonsful, but by ten-thousandths of an ounce.

Stock prices today are based partly on the record of pre-war earnings and dividends, partly on what buyers and sellers think or assume the post-war earnings potential will be—and least of all on war-time earnings. In the case of steels, the past record is familiar and for a few it has not been at all bad. What is the post-war volume and earnings potential? Obviously, nobody can answer this question with much assurance—but, also obviously, the consensus of the market (which is much more often right than wrong) is that the post-war steel prospect is not only uncertain but "less than average" for manufacturing industry as a whole.

There are several matters which cloud the long pull outlook for this industry. Perhaps the most important of these is the huge expansion in producing capacity. A large part of this expansion—but not all—is being financed by Government money and to that extent does not change capitalized assets or liabilities. Nevertheless, the capacity will be there—capacity far in excess of what was ever needed before to fill all civilian needs.

Moreover, there is large expansion of producing capacity in other metals—especially of aluminum and magnesium. And at the same time technical progress in plastics and plywood (the latter is now being moulded into any curved or flat shape desired, with a major addition to strength and durability) is putting these materials in position to offer formidable post-war competition to metals.

Doubtless there are many and large uses in which "heavy" steels will remain unchallenged. But steel has long since ceased to be merely a supplier of capital goods industry. Over the past two decades the "light"

steels—sheet and strip—have assumed great importance in relation to volume and profits. The larger part of the capital expenditures of the industry—very large expenditures—in the years 1933-1939 had to do with facilities for making the steels going into automobiles, refrigerators and the rest of the long list of consumers' durable goods. It is in this large and previously profitable field—important to all the leading companies and the backbone for Inland, National and some others—that light steels, aluminum, plastics, plywood and possibly magnesium alloys will fight it out in post-war markets more competitive than ever before.

Steel is now a unionized industry, along with most others. Since *operating* earnings are far higher than ever before, a question might be raised to as whether radically higher wage scales had harmed the industry at all. The answer is yes and no. Major improvement in machines and methods, as compared with 1929, has increased output per worker per hour very substantially —thus tending to restrain (*Please turn to page* 516)

Position of Leading Steel and Iron Stocks

Company	Estimated Tax Credit	Tax Rating	Earned Per Share 1941	Earned Latest Interim	Year Ago	Estimated 1942 Net Per Share	1942 Divds. to Date	Investment Market Rating	COMMENT
*Acme Steel	3.45	c	$9.65	$2.69(6)	$4.95(6)	$4.00-$4.50	$2.75	B-3	Increasing military demand seen for strapping steel for use in binding war materials sent abroad. Maintained dividends at recently reduced rate are probable.
*Allegheny Ludium	0.95	c	3.86	1.94(6)	3.22(6)	2.00- 2.50	1.20	B-3	Full-time use of production facilities indicated. Raw materials situation believed satisfactory. Continued common disbursements on recent basis probable.
Amer. Rolling Mills	1.62	c	3.21	0.81(6)	1.97(6)	1.50- 1.75	0.70	B-3	Plant expansion nearing completion. Taxes will offset advantages of enhanced operating income. Payments on common may not reach 1941 distributions.
*Bethlehem Steel	3.60	c	9.35	3.00(6)	4.29(6)	5.75- 6.00	4.50	B-3	Orders believed in excess of $1,500,000,000. Production facilities being augmented. Year's net probably lower, but common payments may approximate 1941 aggregate.
Byers (A. M.)	1.25	c	Se3.73	3.16(6-9)	2.15(6-9)	4.00- 4.25	None	D-2	Alloy steel output may not compensate for less favorable wrought iron outlook. Large preferred arrears render remote any disbursement on common shares.
Colorado Fuel & Iron	1.55	b	Je4.06	4.09(3-9)	2.31(3-9)	4.00- 4.50	1.25	C-2	Long-term outlook not impressive. Current position strong, but need for providing for expansion, as well as 1943 bond maturity, may dictate moderation in common payments.
Continental Steel	4.50	b	5.46	1.70(6)	2.85(6)	2.75- 3.00	0.75	C-3	Certain departments being affected by allocations of materials. Meanwhile, strong finances enable further common dividends.
Crucible Steel	3.50	c	12.96	4.01(6)	4.98(6)	7.50- 8.00	†1.00	C-3	Ordnance and alloy steel demand assures high operating levels for duration. Another year of excellent profits in prospect. Some distribution on common before year-end probable.
General Refractories	1.42	b	2.70	0.92(6)	1.26(6)	1.50- 1.75	0.60	C-3	Company's clay, silica, magnesite, etc., find wide war-time utilization. Profits may continue to run lower, but further dividends are expected later in year.
Granite City Steel	2.55	a	1.25	0.67(6)	0.31(6)	1.75- 2.00	†0.35	C-2	New facilities and higher prices aid operations, especially in "plate" divisions. Substantial gain probable in 1942 earnings. Outlook warrants dividend in next few months.
Harbison-Walker	1.15	b	1.81	0.68(6)	0.69(6)	1.25- 1.50	0.875	C-2	Refractory materials in strong war-time demand. Decrease in 1942 profits (after taxes) may be of moderate extent. New reduced dividend basis can be maintained.
*Inland Steel	4.00	c	9.08	3.00(6)	4.64(6)	5.50- 6.00	3.00	B-3	Plant extension will further augment operations. Heavier taxes are retarding interim results. Profit outlook, however, is satisfactory. Strong cash position permits continued regular dividends.
Interlake Iron Corp	0.85	c	1.20	0.35(6)	0.65(6)	0.50- 0.75	0.25	D-3	New facilities seen as eventual earnings aid. Higher taxes and costs will reduce 1942 profits. Added small dividend possible later in year.
Jones & Laughlin	2.65	c	10.85	2.86(6)	5.06(6)	5.00- 5.50	1.50	C-3	Capacity operations seen as result of war-time needs. Long-term outlook improved by merger with Otis Steel Co. Further common payments anticipated this year.
Keystone Steel & Wire	1.30	c	Je2.14	Je2.37(12)	....	......	0.70	C-2	Materials shortages interfering with operations. Sales prospects not impressive. Total dividends may be under 1941 payments.
*National Steel	3.15	c	7.79	2.46(6)	4.42(6)	4.50- 5.00	1.50	B-3	Steel plate and alloy output expanding. Pig iron facilities have been augmented. Taxes will affect year's net income. Regular dividends should be maintained.
Republic Steel	1.05	c	3.87	1.24(6)	2.22(6)	2.00- 2.25	0.75	C-3	Electric steel and steel plate capacity substantially increased. Operating income should be higher, but higher taxes will shade year's results. However, common dividends may approximate 1941 payments.
Sharon Steel	1.32	c	3.40	1.24(6)	1.69(6)	2.00- 2.25	0.50	C-3	New tin plate coating process developed. Year's output will probably be higher, though taxes and expenses will cut profits. 1942 common payments may equal last year's disbursements.
Superior Steel	1.48	c	5.77	2.15(6)	4.17(6)	3.75- 4.25	None	C-3	War production expected to counterbalance drop in civilian sales of stainless strip, but profit margin may be less. Dividends do not seem a near-term probability.
U. S. Pipe & Fdry	2.00	c	3.76	1.73(6)	2.61(6)	3.00- 3.50	2.00	B-3	Pipe demand for use in cantonments and armament plants has held sales at high levels. Full 1942 dividends declared.
*U. S. Steel	4.55	c	10.45	2.44(6)	5.60(6)	4.00- 4.50	3.00	B-3	Diversified revenue sources assure high 1942 operating income. Heavy taxes may further restrict earnings progress. Finances are strong, and another payment on common is probable later in year.
Warren Fdy. & Pipe	1.58	c	3.92	NF	NF	2.25- 2.50	E8.64	C-3	Few details available, but operations probably near capacity levels. Regular dividends can be maintained.
Wheeling Steel	2.25	c	11.74	1.91(6)	6.60(6)	3.75- 4.00	1.25	C-3	Virtually all of facilities now utilized in less profitable war production. Scrap scarcity may affect later operations. Another small common dividend possible before end of year.
Woodward Iron Co	2.60	c	3.01	0.98(6)	2.75(6)	2.00- 2.50	0.50	C-3	1942 pig iron sales may surpass last year's total. Lower net income seen for year. Further small dividends probable.
Youngstown Sheet & T.	3.20	c	9.13	2.66(6)	5.33(6)	4.00- 5.00	2.00	C-3	War business absorbs major portion of output, but operating margins are narrower. Common dividends may be continued on present basis.

Se—Year ended September. Je—June. †—Paid within past 12 mos. E—Includes $7.14 extra dividend from proceeds of sale of assets. NF—Not available. a—Should be able to absorb higher taxes without undue difficulty. b—Not likely to be subject to heavy excess profits taxes. c—Higher taxes will probably reduce earnings. *—Recommended for income and appreciation.

New Construction Restricted to War Needs

Lower 1942 Average Profits and Dividends Probable

During the past few months, the course of construction activities has been altered to such an extent that practically all new undertakings are connected with some phase of the war effort. Construction of residences which are not to be utilized for defense housing or related purposes has been discontinued, while Federal regulations prohibit commencing of unauthorized building projects which would employ materials and construction equipment required for war purposes.

Meanwhile, building operations are close to maximum records, with the valuation of contract awards, as reported by F. W. Dodge Corp., for June, 1942, being more than twice those for the corresponding 1941 month, while the number of projects rose 14% in the comparable periods. Within the limitations imposed by availability of raw materials, no important diminution in this trend is anticipated during the remaining months of 1942.

As a consequence, operations of many building supply firms are close to record levels. Although operating margins of the cement companies recently had been more favorable than a year earlier, much of this advantage will be yielded as a result of price ceilings and higher wage and transportation costs. Alpha Portland Cement and Lehigh Portland Cement, both reporting for twelve months through June 30, 1942, disclosed slightly lower earnings than for the twelve months ended March 31, 1942. Lone Star Cement Corp., notwithstanding a 17% advance in sales, reported a considerable drop in profits for the first half of 1942. An increase of over 100% in taxes was responsible for the less favorable exhibit. All three concerns enjoy strong financial positions, and reasonably liberal dividend policies are probable.

Construction and repair of naval and merchant vessels, tanks, airplanes, army barracks, defense housing, etc., as well as renovation of existing structures, require large quantities of paint and varnish, assuring well-maintained operations for leading concerns in this field, despite the decline in output of automobiles and in new residential building.

Paint Company Earnings Decline

Devoe & Raynolds, Inc., prominent manufacturer of a large line of paints, varnishes, etc., reported profits of $2.27 per share of Class "A" stock for the six months ended May 31, 1942, compared with $1.83 per share in the similar months a year earlier. It is believed that the larger portion of this concern's business is directly or indirectly of defense origin. The balance sheet as of May 31, 1942, revealed a sound cash and inventory position, and regular dividends will doubtless be maintained, although fiscal year earnings will recede. Sherwin-Williams Co., considered the outstanding factor in the paint manufacturing industry, does not report on an interim basis, but it is probable that profits for the fiscal year to end August 31, 1942, may be under those of last year. This concern is marketing a new oil-less paint, under the trade name "Kem-Tone," which is said to dry to a completely washable flat finish. Where shortages have developed, it is said that acceptable substitutes have been developed. Moreover, certain equipment is being revamped for production of new

types of containers to replace tin cans. This company is also well situated from a standpoint of cash and inventories.

Corporations engaged in production of plumbing and heating equipment are in somewhat more vulnerable position because of raw materials scarcities, and generally lower sales volumes are anticipated for the year. At the behest of the Government, repairs to existing equipment are being made wherever feasible, and the resultant loss of replacement business must be considered an adverse factor to the extent where the plumbing and heating organizations are not able successfully to convert their facilities to production of armament.

Interim earnings of American Radiator have been running under those of a year earlier. Actual and potential war orders of this company are estimated at around $75,000,000, indicating capacity operations for many months. Taxes and narrower profit margins on Government business will affect 1942 results. Orders of direct or indirect military origin are (*Please turn to page* 516)

Position of Leading Building Equipment Stocks

Company	Estimated Tax Credit	Tax Rating	Earned Per Share 1941	Earned Latest Interim	Year Ago	Estimated 1942 Net Per Share	1942 Divds. to Date	Investment Market Rating	COMMENT
Alpha Portland Cement.	NE	c	2.09	2.03(6-12)	1.71(6-12)	1.25-1.75	0.75	C-2	Demand consequent upon war effort expected to offset loss resulting from private construction restrictions. Moderate drop seen in 1942 net income. Strong finances enable liberal dividend policy.
Amer. Encaustic Tiling	0.08	c	0.25	0.04(3)	0.04(3)	0.10-0.15	None	D-3	Sales prospects not considered especially impressive. No dividends are indicated.
American Radiator	0.31	c	0.73	0.20(6)	0.31(6)	0.25-0.50	0.15	C-3	War business involves narrower profit margins than those obtained from normal production, which is declining. Reduced 1942 profits probable. Dividends may not reach 1941 totals.
Armstrong Cork	1.70	c	2.86	0.92(6)	1.69(6)	1.75-2.00	0.75	C-2	Materials shortages handicap operations in certain departments. Taxes will probably cut 1942 earnings. Lower dividends expected.
Celotex	0.80	b	Oc2.51	0.71(4-6)	1.10(4-6)	1.50-1.80	0.625	C-3	Facilities are being augmented. War business assures high operating levels. Expenses and taxes will affect year's results. Conservative dividend policy expected.
Certainteed Prods.	0.08	b	1.48	0.38(6)	0.46(6)	0.75-1.00	None	D-2	Continued large gypsum sales for war use expected, though private business is probably declining. 1942 net income may be under last year's earnings. Large preferred arrears preclude common payments.
Congoleum-Nairn	1.07	b	1.62	0.94(6)	0.62(6)	1.25-1.50	0.75	C-2	Company well situated from standpoint of sales and raw materials supplies. Only moderate drop expected in year's profits. Small extra dividend may be paid later in year.
Crane Co.	1.10	c	2.88	NF	NF	1.75-2.00	†1.00	C-3	Valves, pipes and fittings in large war demand. Other items somewhat restricted. Expenses and taxes will doubtless cut 1942 profits. Additional common payments probable later this year.
*Devoe-Raynolds "A".	2.00	a	Nv7.08	2.27(5-6)	1.83(5-6)	4.75-5.00	1.00	C-2	Major portion of business now believed to be of war origin. Profits for year not likely to reach 1941 figures. Continuance of regular Class "A" dividends expected.
Flintkote	1.10	a	2.35	0.83§	1.45§	1.25-1.50	0.55	C-2	More expensive railroad cost of moving asphalt supplies is factor in higher expenses. Lower income seen for future months. Further common dividends probable this year.
Holland Furnace	3.10	c	4.65	0.24(6)	1.03(6)	1.00-1.50	1.00	C-3	Effects of materials restrictions may eventually be offset by conversion to war output. Meanwhile, lower earnings are anticipated. Decreased dividends for 1942 appear inevitable.
*Johns-Manville	2.90	b	6.66	2.01(6)	3.35(6)	3.75-4.00	1.25	C-2	Record sales expected for 1942, with over 75% devoted to war purposes. However, sharply higher taxes are depressing current earnings. Payments on common may be under last year's total.
Lehigh Portland Cement	1.50	b	2.78	2.68(6-12)	3.32(6-12)	2.25-2.50	1.251	C-2	Military construction orders should offset drop in civilian business. Improved operating income probable. Moderate profits decline expected for 1942. Strong liquid position makes possible liberal common dividends.
★Lone Star Cement	2.20	b	4.33	1.46(6)	2.04(6)	2.50-3.00	1.50	C-2	Domestic and Latin American sales outlook propitious. Income gains are being nullified by higher taxes. Cash holdings permit continued liberal dividend policy.
*Masonite Corp	1.40	b	Ag3.56	2.18(6-10)	2.06(6-10)	3.00-3.25	1.00	C-2	Expanded facilities are operating at virtual capacity. Products are widely utilized in supplying war needs. Additional small extra dividends probable before year-end.
*Minn.-Honeywell	2.55	b	4.20	1.62(6)	1.68(6)	3.25-3.50	2.00	C-2	Higher gross sales expected for 1942, but with small profit margins on Government business. Year's profits will decline, but continuance of regular dividends is anticipated.
National Gypsum	0.30	c	0.94	0.19(6)	0.38(6)	0.25-0.50	None	C-3	Increased expenses have been chief deterrent to interim earnings progress. Conservative dividend policy seen as sequel to expected decline in 1942 earnings.
Otis Elevator	0.70	a	1.10	0.69(6)	0.65(6)	0.75-1.00	0.65	B-2	Output of armament items accounts for two-thirds of production. However, narrow profit margins will affect year's results. Further small common dividend probable later in 1942.
Paraffine Cos.	1.90	b	Je3.16	3.21(3-9)	2.00(3-9)	3.25-3.75	1.00	C-2	Larger sales of linoleum, floor coverings and new magnesia products, expected to offset drop in paint and roofing demand. Taxes will probably cut current fiscal year net income. Regular common dividends anticipated.
Penn. Dixie Cement	NE	c	0.69	0.66(6-12)	0.52(6-12)	0.50-0.75	None	D-2	Continued high sales levels are in prospect, but large preferred arrears render common dividends remote.
Ruberoid	1.57	c	3.93	0.67(6)	1.47(6)	1.25-1.50	0.30	C-3	Notwithstanding large sales volume, profits for 1942 will probably decline sharply. Dividends, also, will be well below last year's payments.
Sherwin-Williams	3.75	c	Ag7.83	NF	NF	6.00-6.50	2.25	C-2	Demand for various products continuing at excellent levels, and only a moderate earnings decline is foreseen for year. Regular common dividends should be maintained.
U. S. Gypsum	2.55	c	5.42	0.84(3)	0.94(3)	3.25-3.50	1.50	C-2	Sales for military purposes will probably offset decrease in normal business. Increased taxes will curtail 1942 profits. Common dividends not expected to reach last year's distributions.
Yale & Towne	1.70	c	3.43	1.18(6)	1.97(6)	2.25-2.50	0.60	C-2	Larger war construction sales and munition orders are in prospect. Profits for the year, however, will probably decline. Regular dividends are expected.

NE—Not estimated. NF—No information available. †—Paid within the past 12 months. Nv—Year ended November. Oc—October. Ag—August. Je—June. §—28 weeks July 18th. a—Should be able to absorb higher taxes without undue difficulty. b—Not likely to be subject to heavy excess profits taxes. C—Higher taxes will probably reduce earnings. *—Recommended for income and appreciation. ★—Recommended for safe income.

Favorable Outlook for Distillers

Sales Trend Up and Tax Position of Most Companies Is Good

THE liquor industry is peculiarly favored under present circumstances and as far ahead as the general outlines of our war economy can be foreseen. While its distilling facilities have been largely diverted to production of alcohol for war purposes, how profitable this war work may be is not a matter of very much importance. Practically all other converted industries will have little or none of their regular consumer products for sale. What is unique about the liquor industry is that it can continue to maintain civilian sales volume, no matter how fully its distilling facilities are pre-empted by war needs. It has enough whiskeys in storage to meet all sales needs for at least five years to come, even at the heavy 1941 rate of consumption. While previous demand for gin can not be long served, much of this will switch to whiskey.

All of the larger distillers have a relatively favorable tax position, due to heavy invested capital. Their sales curves are upward. For instance, consumption of distilled spirits amounted to 126,000,000 gallons in 1938, 133,000,000 gallons in 1939, 145,000,000 gallons in 1940 and 162,000,000 gallons last year. Volume this year is expected to show another gain, though smaller than last year in both gallons and percentage. Sales gains of recent years provide no factual evidence whatever that higher excise taxes, which are passed along, of course, to the consumers, cut down consumption. The Treasury is on record with the prediction that the additional boost in excise taxes now pending will not significantly reduce sales volume. Allowing both for substantial increase in consumer incomes and the tendency of many people to do more drinking under the stresses of war, this prediction seems well-founded.

Per capita consumption of distilled spirits has increased in each of the past several years. It was 1.22 gallons last year, against 1.10 in 1940 and 1.01 in 1939. Considering 1942's psychological stresses and strains, it will be interesting to watch this figure. No doubt it will supply a talking point for the Prohibitionists who are still with us, but there appears to be scant likelihood that the "noble experiment" will be repeated. Its bootlegging evils are too vividly remembered.

During the years from 1934 through 1937 the industry bent every effort to build up large stocks of mature whiskeys, involving large working capital and financing needs. Production more recently has continued to exceed consumption but only moderately so—and the previous excess now proves to have been an unforeseen "break" for the industry. Many of the smaller producers, who rushed back into the business or entered it for the first time after Repeal, have fallen by the wayside or been absorbed by the larger companies. Especially over the past year or two, the leading enterprises have bolstered their financial position by converting substantial short-term borrowings into long-term obligations.

Periodic price-cutting in the industry has been a familiar thing in past years, but was due mainly to competitive pressure at the retail (*Please turn to page* 514)

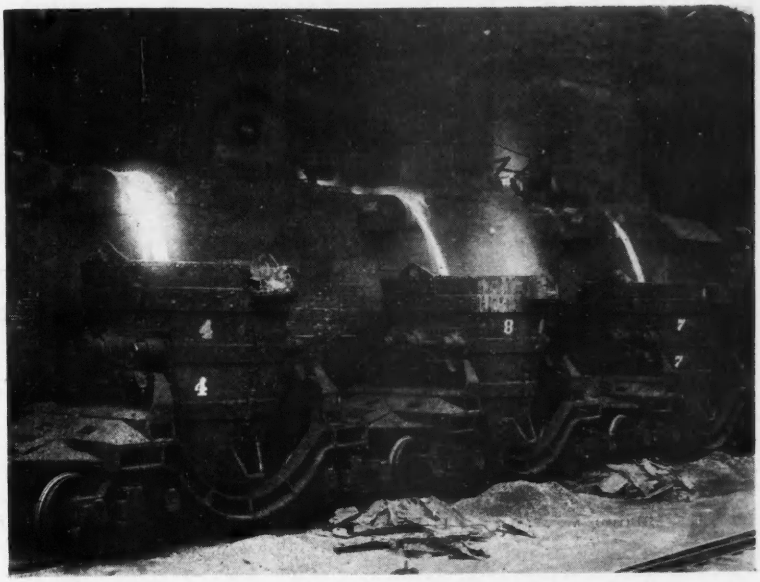
Position of Leading Liquor Stocks

Company	Estimated Tax Credit	Tax Rating	Earned Per Share 1941	Earned Latest Interim	Year Ago	Estimated 1942 Net Per Share	1942 Divds. to Date	Investment Market Rating	COMMENT
Angostura-Wupperman.	0.20	c	0.21	NF	NF	0.10-0.15	$0.05	D-2	Enhanced consumer income suggests continued sales gains. Tax factor apparently does not present important obstacle to earnings progress. Sound finances indicate further dividend payments later in the year.
Austin Nichols........	NE	b	d1.15ap	d0.12ap	....	NE	None	D-2	Sales prospects somewhat handicapped by insufficient imports of foreign beers, wines and liquors. Deficit reported on common in recently ended fiscal year. Large preferred arrears render common dividends remote.
Distillers Corp. Seag....	¶	b	4.17Jl	4.95(4-9)	1.90(4-9)	4.00-4.50	1.665	C-2	Butadiene (used in making synthetic rubber) production process has been developed. Sales outlook satisfactory, but higher taxes may affect present fiscal year profits. Regular dividends on common anticipated.
*National Distillers....	2.35	b	3.47	1.21(6)	1.01(6)	1.75-2.00	1.50	C-2	Earnings gains continuing, despite extremely liberal tax provisions. Military alcohol orders should offset possible drop in consumer sales. Prospects justify expectation of maintenance of regular dividends.
Schenley Distillers.....	3.34	a	5.20ag	2.99(5-9)	2.92(5-9)	4.00-4.25	None	C-2	Heavier taxes have not prevented profit progress. Large straight whiskey output aids conversion to military alcohol production. Earnings outlook satisfactory, notwithstanding impending tax rises. Payment on common possible in near future.
H. Walker-G. & W....	¶	a	8.79ag	6.40(5-9)	5.95(5-9)	7.50-8.00	2.00	C-2	Large portion of factilities converted to military output of ethyl alcohol (used in smokeless powder). Sales outlook and inventory position favorable. Regular dividends (in Canadian currency) indicated.

ap—Year ends April. Jl—July. ag—August. NE—No estimate. NF—Not available. ¶—Incorporated in Canada; not subject to U.S.E.P.T. a—Should be able to absorb higher taxes without undue difficulty. b—Not likely to be subject to heavy excess profits taxes. c—Higher taxes will probably reduce earnings. *—Recommended for income and appreciation.

6 Stocks With Good Earnings Despite Higher Taxes

BY STANLEY DEVLIN



Along with Inland, National Steel enjoys a strategic advantage over the old-line companies, its main plant being located in Detroit where it can best service the automotive and war industries.

Skelly Oil is a $70,000,000 integrated mid-western oil company which has made an excellent showing since it emerged from the red in 1935. Earnings increased to $6.09 in 1937, dropped back to $1.99 in 1939 and recovered to $6.03 in 1941.

In the first half of 1942, share earnings were $2.25 compared with $2.72 in the same period last year. Current earnings were after provision for Federal excess profits and income taxes on the basis of the 90-45 formula enacted by the House and currently under discussion in the Senate. This would indicate probable earnings in the neighborhood of $4.50 or $5.00 for the calendar year. Even assuming that rationing is extended to the entire country, it seems fair to assume that earnings would remain in the neighborhood of $4.00 a share.

On this basis, the stock is currently selling at about six times earnings. Dividends have been somewhat irregular (something has been paid in each of the past six years). Last year 50 cents was paid in July and $1.00 in December; this year 50 cents will be paid August 31, and a substantial year-end extra would seem logical. A $1.50 total would mean a yield of about 6%. The company's cash position appears comfortable, the Dec. 31 current ratio being slightly over 2 to 1.

In the past four years the stock has shown considerable resistance to the general downtrend and is currently (at 25) above the average 1939-40 levels. It is, however, about 10 points below last year's high and thus appears to be in a buying range, despite current irregularities in the industry.

National Steel, selling currently around 47 to yield nearly 6½%, enjoys the distinction of being the only big steel company to report earnings in 1932. Profits increased steadily from 73 cents in that year to $9.02 in 1937; dropping to $3.04 in 1938, they again advanced steadily to last year's $7.75. In the first half of 1942, $2.46 was earned compared with $4.42 in 1941. This year, of course, taxes have been heavy, and depreciation and depletion charges have also been increased sharply. Since the first half earnings were figured on the basis of the present tax bill, $5.00 seems to be the approximate war-time level of earning-power. On this basis the stock is selling at a little under ten times earnings. Considering the relatively stable earnings as compared with the gyrations of companies like Bethlehem, Jones & Laughlin, Republic, etc., the stock seems to have definite investment caliber.

Along with Inland Steel, National enjoys a strategic advantage over the old-line steel companies, its main plant being located in Detroit where it can best service the automotive and war industries. Another important plant is at Weirton, West Virginia, and last year three blast furnaces were built, together with other expansion. The location of its plants gives the company the advantage of very cheap water transportation, and the company has its own ships.

As of December 31, the company had over $20,000,000 in cash and the current ratio was 2.21 to 1. Funded debt consisted of $50,000,000 3s/65 and $10,931,000 Serial Notes and Mortgages, with 2,194,667 shares of common stock (about 27% owned by M. A. Hanna Co.). The book value of the common stock is about $70 a share.

At the end of 1941 over 90% of the output was for war purposes and the figure would now probably be closer to 100%. The transition back to a peace-time basis should not be difficult considering the company's feat in avoiding deficits in years like 1932 and 1938. *(Please turn to page 518)*

FOR PROFIT AND INCOME

Who Isn't Speaking of Taxes?

An examination of dozens and dozens of second quarter earnings reports leads to the conclusion that many companies have written off more for taxes in the quarter than will be found necessary when the tax bill is finally a law. If this conclusion is correct, then the tax deductions in the next half year will be on a smaller scale. This is particularly true of the steel stocks, and it is probable that they have been much oversold and are in line for some substantial recoveries before long. The height of something or other in the line of tax deductions was by Crucible Steel where $11,239,338 was set aside for taxes in the second quarter and only $1,457,161 net was left over. In the half year, Crucible set aside $19,159,875 for taxes, yet the six months income equalled $4.01 a share on the common stock. Speaking of taxes, and who isn't, there is the matter of $15,444,070 set aside for the government by United Aircraft for the second quarter and $29,660,456 for the half year for taxes, yet in the six months, the net on the stock was $2.37 a share. A more favorable statement from the tax angle is Coca Cola which put aside $7,087,000 for taxes and had $7,284,191 left for stockholders in the second quarter, equal to $1.71 a share and for the half year earned $2.76 a share. Taxes hit Radio so hard that only 1.4 cents a share was left for the common stock in the second quarter. The whole tax situation seems to have been rather fully discounted by the stock market, with indications that many stocks still have enough left over after taxes to show earnings which loom up large in the ratio to the prices the stocks are selling at.

Railroad Bonds Could Boom

Some of the formerly weaker railroads have been making enormous profits in the past two years. They would like to buy up and retire some of their bonds which sell well below par. At the present time, the law calls the difference between par and the lower figure at which a company buys its own bonds, a profit, and forces the payment of income taxes on such profit. The Association of American Railways has urged Congress to allow such retirement of funded debt without taxing the so-called profit in it. If this became a law, it could produce a boom in bonds of such railroads as Baltimore & Ohio, Nickel Plate, New York Central, Southern Pacific and many others whose earnings are large and bonds selling far under par in many instances.

Southern Railway Preferred

A peculiar attitude is shown towards railroad shares by many speculative interests who profess to believe that the railroads are going to have a very bad time after the war is over. These pessimists are glibly speaking of this road or that "on the rocks" some day, and for that reason decry any bullish feeling on railroad shares where current earnings are more than the current price of the stock in some cases, and in some others, rail shares are selling from 1 to 2 times the indicated earnings for this year. No one can answer the question as to what Baltimore & Ohio, New York Central, Nickel Plate, Southern Pacific and various others which have such large earnings now in relation to their stock prices, will be earning a few years after the war is over, or even if they could be in receivership within the decade. But Southern

United States Rubber Company has established a school to train Air Force ground crews how to make permanent repairs on bullet-sealing equipment. In the picture is a bullet-sealing fuel tank of a combat plane.

Railway does not seem to be in any such doubtful position for the very long pull. Industry, and particularly the textile industry, has been steadily growing for years in the South and with the development of more water power, still more of such industrial development is expected. The Southern's territory is rich in coal, as a means of aiding industry and as a source of revenue to the railway. Agricultural development is steadily progressing in that country, with more and more foodstuffs being shipped over the Southern Railway lines together with the big annual cotton shipments. Earnings of the road on its preferred stock were \$10.81 a share in 1939, \$12.25 in 1940, \$32.28 in 1941 and \$18.81 in the first half of 1942, a total of over \$74 a share in three and a half years. You would never suspect such earnings in looking at the price of the stock, which is less than was earned per share last year and less than the indicated per share income this year. The stock seems due to be on its \$5 dividend before the year is over. There are only 600,000 shares of the preferred, and with net earnings running at an annual rate of \$18,000,000 to \$20,000,000, the railway could easily pay the \$3,000,000 annual dividend on the preferred.

Bonds for Conversion

Where Prices Are Not Too Far Apart. It Will Be Noted That All but Three of the Conversions Could Have Been Made at Present Prices for the Bonds and the Highs of Recent Years for the Stocks.

Name of Bond	Conversion Terms Per $1000 Bond	Recent Price Bond	Recent Price Stock	Price Stock Should be for Immediate Conversion	High for Stock 1936-7
American Tel. & Tel. deb. 3s 1946.....	10 shares of stock with $40 per share paid to Co.	107½	117	147½	190½
American Type Founders deb. 5s 1950..	100 shares common	104	5	10½	20½
Baldwin Locomotive Works ref. 6s 1950.	65 shares common	107	11	16½	23¾
Bethlehem Steel deb. 3½s 1962.......	8.69 shares common (a)	101	55	116¼	105½
Commonwealth Edison deb. 5s 1958....	40 shares common	109	19	27¼	34¾
Great Northern Ry. Series G gen. 4s 1996	25 shares preferred	95	22	38	56¾
Inspiration Cons. Copper first 4s 1952...	50 shares common	102	10	20½	33⅛
National Distillers Prod. deb. 3½s 1949.	28½ shares common (b)	103	24	36	35
New York Dock 5% notes 1947.......	20 shares preferred plus 14 shares common	... 75½	14 pf. 4½ com.	50 pf. 18 com.	29¼ pf. 15 com.
Pennsylvania R. R. deb. 3¼s 1952.....	20 shares common	88	24½	44	50¼
Phillips Petroleum deb. 1¾s 1951......	22 shares common (c)	101	40	46	64
Studebaker Corp. deb. 6s 1944.........	80 shares	108	4½	13½	20

a—This will be the rate of conversion after October 1, 1942. b—Slightly less than 28½ shares. c—Slightly less than 22 shares.

Thumbnail Sketches

Any large statistical or advisory organization gets many inquiries on securities which are not well known, often on obscure issues. Some very interesting situations are uncovered in such inquiries. Here are a few, given in the form of "thumbnail sketches."

Raymond Concrete Pile (on the N. Y. Curb) has been on a \$2 dividend rate since the start of 1941, earned \$7.34 a share in 1941, the stock selling at about 13.

Kearney & Trecker (over-the-counter) earnings increased from \$15,000 in 1936 to over \$5,000,000 in 1941 after paying \$7,700,000 taxes in 1941; the stock is on a \$2 dividend basis.

Northwest Engineering (Chicago S. E.) is on a \$2 dividend, earned \$3.25 a share last year, with the stock around 20.

Gamewell Co. (N.Y.S.E.) paid out over \$16 a share in taxes in its fiscal year ending May 31, 1942, yet had \$9.50 a share left for the stock, which has been selling below 20.

American Throttle has been around \$17 to \$19 a share (over the counter) yet none of the reporting agencies have any information about it as to dividends, earnings or balance sheet.

Warren Railroad (over the counter) has sold at prices to yield over 30%, has received \$3.50 a share annual dividends since 1857 to date, yet went to near 11 recently because the Delaware, Lackawanna & Western, which guarantees the dividend on Warren, may have to use the money to pay Warren's income taxes.

New Idea (on the N. Y. Curb) has been showing good earnings for many years (\$2.90 a share in 1941), yet the stock has never done much on the up side or the down.

The Commonwealth of Virginia is an important stockholder in the Richmond, Fredericksburg & Potomac Railroad (listed on the Richmond S.E.)

Old King Coal

Coal was king for many years, then other fuels cut into its power. Now there may be a restoration to the throne for as long as the war lasts and for some time afterwards. Several of the coal stocks have been quite strong recently. Consolidation Coal common and preferred have good possibilities. Dividends should be restored before long on the preferred if the recent earnings continue and there is every indication that they will increase rather than diminish. Not only are householders going to use an enormous amount of anthracite for home heating in place of oil this winter, but, where they are allowed by law, they will use bituminous coal. Many factories are also turning from oil to coal for their power and heating. Consolidation has the largest unmined surplus of bituminous of any mine in the world, according to such figures of reserves in the ground as are available for foreign mines. The company reported \$1.95 a share earned on its common in the first six months of 1942, against 51 cents a share in 1941 first half. The price of the preferred and common are not far removed from where a conversion could be made, as the preferred is convertible into four shares of common.

A Few Per Cent Difference

A vast difference in the earnings of some companies results in the changing of a few per cent in the various tax laws. In connection with a recent offering of a block of General Electric stock, it was pointed out that with the normal and surtax at 45% in each case, there was

(*Please turn to page 520*)

Answers to Inquiries

The Personal Service Department of The Magazine of Wall Street will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

Bayuk Cigars

What is your opinion regarding 100 shares of Bayuk Cigars for which I paid 30 last year? Would you advise buying additional shares around 20? I understand that sales of Bayuk Phillies 5c cigar is showing tremendous increases over last year and that the new 10c size has been favorably received. Is it to be introduced nationally? How is the company meeting its labor and tax problems? Do you think the $1.50 dividend is secure?—R. H. C. of Kansas City, Mo.

Bayuk Cigars, manufacturer of the 5-cent Phillies brand, continues to show a good growth in total sales. The extra-size Phillies cigar selling at 10-cents or three for a quarter was introduced in New England and was so favorably received that it was then introduced in New York, New Jersey and more recently in Pennsylvania. We assume that further distribution nation-wide is intended. The company has had some difficulty in keeping its labor inasmuch as many women workers have sought employment in war plants. Apparently this problem has been solved by raising wages. The financial position of the company was considerably improved by the retirement of the 7% preferred stock last year. Unfortunately, the saving of the preferred stock dividend failed to come down into net because of the very much increased taxes. For the first six months of this year the company showed net earnings of $465,080 compared with $693,545 in 1941, or on a per share basis, $1.18 as compared with $1.75. The company states however that these earnings were figured after setting aside reserves of $438,382 for taxes, compared with $394,882 figured at rates provided in the tax bills submitted to the House on July 15, 1942. We regard the $1.50 dividend as reasonably secure. In deciding whether or not to add to one's holdings one must consider that higher taxes are needed all along the line and such luxuries as cigars would seem to be in a more vulnerable position than the major essentials.

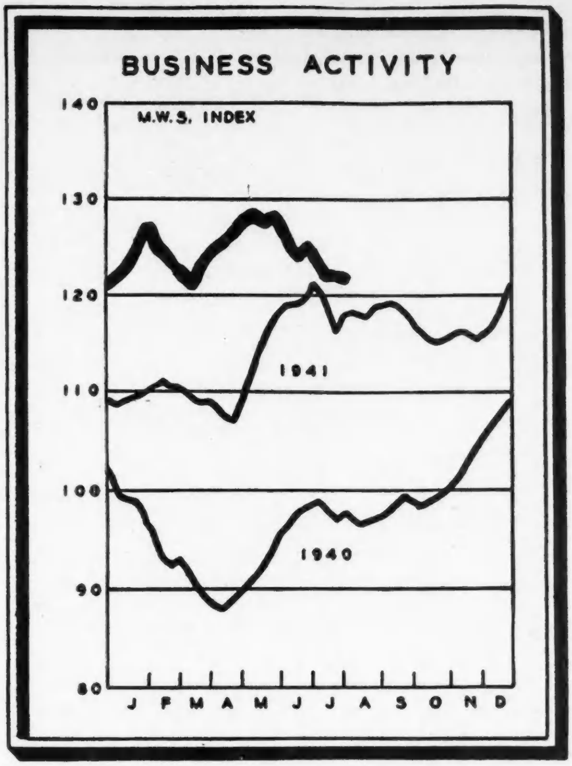
Philip Morris & Co.

How do you regard the possibilities of Philip Morris common for income and appreciation to my purchase price of 85? To what extent has my equity been diluted through the recent new financing of $11,000,000? Are sales continuing to increase at a pace which will offset the burdens of higher taxes, costs and capital charges? Would you advise that I hold on or switch to a more dynamic situation?—F. I. S., Braintree, Mass.

Philip Morris recently undertook new financing to the extent of about $11,000,000, through the sale of 6,000,000 twenty-year 3% debentures and 29,666 shares of 4½% preferred stock. Inasmuch as $8,000,000 of the money realized through this financing was used for the repayment of bank loans and the balance was added to working capital one can hardly say that your equity has been diluted. Rather, one should consider that inasmuch as the financing was done on most favorable terms, the position of the stockholder was improved. Sales are continuing to increase at a phenomenal pace. For the year ending March 31, 1942, net sales were $112,565,200 as compared with $87,352,065 for 1941. Operating profit showed an increase of almost $4,000,000. However, expenses and Federal income and excess profits taxes, figured on the 1941 rate, reduced the net earnings on the common stock from $8.14 in 1941 to $8.01 in 1942. Earnings since March 31, will have to be figured at the 1942 rate and we look for a further decline in net earnings, even though the company continues to increase its sales as it did last year. We believe the $3 dividend rate is safe for this year, but also believe that the amount by which it is covered may be smaller. At recent prices, this prospect has probably already been discounted and, if we should run into a real market, some appreciation may be looked for.

(Please turn to page 520)

When *Quick* Service Is Required, Send Us a Telegram Prepaid and Instruct Us to Answer Collect.



CONCLUSIONS

INDUSTRY—War activities absorbing 38% of the national income. Price ceilings bursting.

TRADE—Public spends only 46% of its total income in the retail stores, against 58% a year ago.

COMMODITIES—Wheat and cotton futures continue irregular price changes, with trading light.

MONEY AND CREDIT—Long term money rates have worked slightly higher, with short time yields a shade lower.

The Business Analyst

Per capita **business activity** has remained virtually stationary during the past five weeks, the recession in civilian output having been about offset by expansion in war activities. The index averaged 122.9 during July, compared with 125.2 in June and 117.9 for July of 1941. Without compensation for population growth, this publication's index receded during July to 146% of the 1923-5 average, from 149 in June; but was 5.7% ahead of July last year.

* * *

Material shortages, notably of steel, are not only placing a heavy strain upon the civilian economy but also threaten to prevent realization of the Army-Navy program for a munitions output of $60 billion this year and $110 billion in 1943. Federal Reserve indexes show that, while output of durable goods rose 22% within the most recent twelve-months period for which data are available, the gain for mine products was only 3%. W P B's Labor Policy Committee warns that 1,000 war plants might be forced to curtail this month and next for lack of materials. Add to this an acute shortage of warships for convoy duty, plus Army-Navy insistence that the war can be won only by a huge and well equipped American Army, and it is scarcely surprising that only 12% of our munitions production within the past seven months

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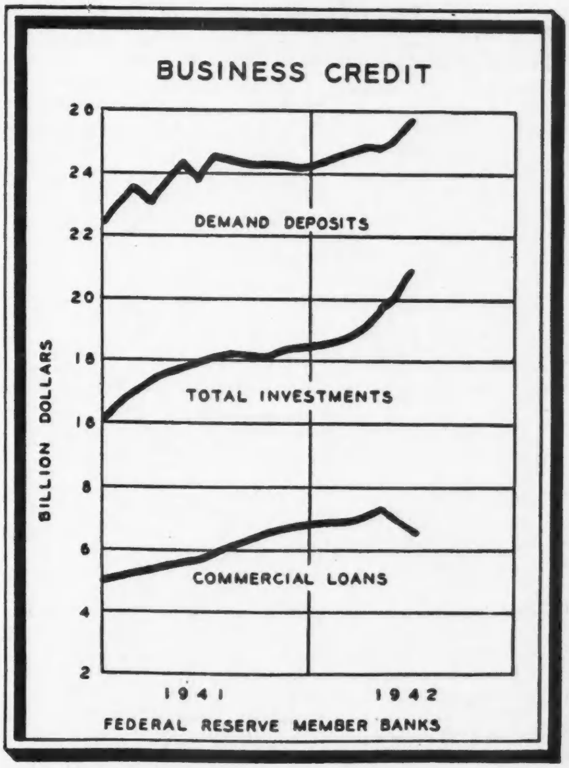


Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION(a)	June	177	175	159
INDEX OF PRODUCTION AND TRADE (b)	June	114	113	112
Production	June	123	120	115
Durable Goods	June	137	131	122
Non-durable Goods	June	112	111	111
Primary Distribution	June	132	132	114
Distribution to Consumers	June	83	85	104
Miscellaneous Services	June	117	116	102
WHOLESALE PRICES (h)	July	98.6	98.6	88.8
COST OF LIVING (d)				
All Items	July	97.5	97.8	88.9
Food	July	100.3	99.5	86.2
Housing	July	90.8	91.0	88.4
Clothing	July	88.0	88.1	73.8
Fuel and Light	July	90.4	90.4	87.8
Sundries	July	104.1	104.1	98.7
Purchasing Value of Dollar	July	102.6	102.8	112.5
NATIONAL INCOME (cm)†	June	9,537	8,622	7,937
CASH FARM INCOME†				
Farm Marketing	June	1,059	993	773
Including Gov't Payments	May	1,030	1,097	771
Prices Received by Farmers (ee)	July	154	151	125
Prices Paid by Farmers (ee)	July	152	152	133
Ratio: Prices Received to Prices Paid (ee)	July	101	99	96
FACTORY EMPLOYMENT (f)				
Durable Goods	June	155.6	152.5	135.1
Non-durable Goods	June	121.9	122.4	121.7
FACTORY PAYROLLS (f)	June	194.5	191.8	152.2
RETAIL TRADE				
Retail Store Sales $†	June	4,446	4,499	4,606
Durable Goods (a)	June	100.0	100.8	163.9
Non-durable Goods (a)	June	146.9	149.1	130.9
Chain Store Sales (g)	June	171	170	133
Retail Prices (s) as of	June	113.1	113.2	97.7
FOREIGN TRADE				
Merchandise Exports†	Apr.	$682	$609	$385
Cumulative year's total† to	Apr.	2,249	.....	1,372
Merchandise Imports†	Apr.	234	272	287
Cumulative year's total† to	Apr.	1,014	.....	1,018
RAILROAD EARNINGS				
Total Operating Revenues★	June	$623,687	601,064	455,022
Total Operating Expenditures★	June	378,472	375,449	298,932
Taxes*	June	110,499	100,183	51,470
Net Rwy. Operating Income★	June	118,730	109,672	93,316
Operating Ratio %	June	60.68	62.46	65.70
STEEL				
Ingot Production in tons★	July	7,148	7,022	6,808
Pig Iron Production in tons★	Mar.	5,113	4,458	4,704
Shipments, U. S. Steel in tons★	July	1,765	1,774	1,666
GENERAL				
Paperboard, new orders (st)	June	379,375	428,778	525,325
Lumber Production† (bd. ft.)	June	2,861	2,680	2,786
Cigarette Production†	June	20,003	18,455	18,522
Bituminous Coal Production★ (tons)	July	47,700	48,410	44,080
Portland Cement Shipments★ (bbls.)	June	16,022	16,349	15,223
Commercial Failures (c)	June	804	955	970

PRESENT POSITION AND OUTLOOK

(Continued from page 509)

has gone to our Allies under the **lend-lease** program.

* * *

War expenditures during July reached $4.8 billion, making a total defense-war cost of around $39.56 billion from June 30, 1940, to date. War now consumes about 38% of our **national income,** which rose to $9.54 billion in June, against only 11% a year ago. After allowing for the 9% rise in **living costs** during the past twelve months it appears that current output of goods and services for civilian use is around 16% lower than a year ago; but consumers and stores still have such large stocks of discontinued items that the pinch is scarcely noticeable as yet. The War Department, in preparing for armed forces of nine million by December, 1943, estimates that the total **number employed** in supplying civilian needs will decline only 6% between December of the current year and December next year. Should this prediction prove even approximately correct, material **sacrifices** by civilians within the next two years would not be nearly so severe as the fibre tougheners would have us believe.

* * *

In a growing number of instances, however, **upheavals of ceilings** are beginning to hit the consumer's pocketbook. Cracking down by O P A on violations by certain retail food stores has brought a protest by the New York State Food Merchants Association against numerous violations by wholesalers. The price situation in **meats** is particularly explosive. Livestock is rising, unchecked by ceilings. Small packers, with rigid ceilings are being forced out of business. The resulting scarcity—notably of beef in large cities—forces retailers to pay above-ceiling prices and pass the increase on to customers. If dealer or customer refuses to pay the higher price, no one will serve him. Recently the O P A has authorized a rise in **liquor** prices to compensate for higher costs and taxes. W P B is investigating a tip on the black market in **steel.**

* * *

In Canada, the **cost of living** index, after several months of reassuring stability, jumped more than a point during July under the impact of an explosion in food costs. Consequently, cost of living bonuses there must be raised: thereby planting another time bomb under prices. **Farm prices** in the U. S. are 21% above last year, with food prices up 17%; while **wholesale prices** for all other commodities have risen only 6% on an average.

* * *

Employment rose 700,000 in July, to a new peak of 54 million exclusive of the armed forces. The WPA estimates, however, that 2.8 million are still seeking work. Last year **net income from farming** to persons on farms—before personal income taxes—reached $7.6 billion, or 8% of the national income—the largest since 1920 and 41% above 1940. Average per capita income of the farm population last year was 4% more than that of the non-farm population.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Aug. 8	121.6	122.6	118.0
ELECTRIC POWER OUTPUT				
K. W. H.†	Aug. 8	3,637	3,649	3,233
TRANSPORTATION				
Carloadings, total	Aug. 8	849,752	863,528	878,505
Grain	Aug. 8	42,126	43,618	45,888
Coal	Aug. 8	163,440	165,723	166,434
Forest Products	Aug. 8	53,083	55,462	49,119
Manufacturing & Miscellaneous	Aug. 8	387,126	359,112	360,639
L. C. L. Mdse	Aug. 8	89,051	89,575	156,709
STEEL PRICES				
Pig Iron $ per ton (m)	Aug. 11	23.61	23.61	23.61
Scrap $ per ton (m)	Aug. 11	19.17	19.17	19.17
Finished c per lb. (m)	Aug. 11	2.305	2.305	2.305
STEEL OPERATIONS				
% of Capacity week ended (m)	Aug. 13	96.6	96.6	98.5
PETROLEUM				
Average Daily Production bbls.★	Aug. 8	3,970	3,383	3,911
Crude Runs to Stills Avge. bbls.★	Aug. 8	3,561	3,672	3,912
Total Gasoline Stocks bbls.★	Aug. 8	81,315	81,324	84,073
Fuel Oil Stocks bbls.★	Aug. 8	78,575	78,383	93,189
Crude—Mid-Cont. $ per bbl.	Aug. 14	1.17	1.17	1.17
Crude—Pennsylvania $ per bbl.	Aug. 14	2.55	2.55	2.23
Gasoline—Refinery $ per gal.	Aug. 14	0.092	0.117	.085
ENGINEERING CONSTRUCTION				
Volume★ (en)	Aug. 13	200,600	163,973	91,586

PRESENT POSITION AND OUTLOOK

For the month of June, **wholesale sales** were only 11% above last year, compared with a 23% rise for the half year. Sales by all **retail stores** amounted to $4.45 billion (only 46% of the national income), against $4.61 billion (58% of the national income) a year earlier. Sales of non-durable goods rose 12%; but sales of durable goods dropped 39%. **Department store sales** in the week ended Aug. 1 were 6% below last year, against gains of 3% for four weeks and 12% for the year to date. Department store **inventories** on July 1 were 72% larger than a year ago; which suggests that the stores will have enough merchandise to do a fair Christmas business this year, though not so good as last season when customers were scrambling for to-be-discontinued goods.

* * *

Net income of Class I **railroads** for the first half totaled $289 million, or 70% above the like period last year. Southern carriers have been authorized by the I. C. C. to raise their basic passenger coach fare from 1.65 to 2.2 cents a mile, thereby establishing a uniform basic fare throughout the country.

* * *

Incomplete returns show the following drops in profits for the first half: **paper**, 8%; **petroleum**, 39%; **steel**, 42%; **building equipment**, 21%; **machinery**, 16%; **automobiles**, 59%; **railway equipment**, 24%; **trade** (wholesale and retail), 16%; **coal** mining profits rose 50%.

†—Millions. ★—Thousands. (a)—Index Federal Reserve 1935-39—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreet. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (en)—Engineering News-Record. (f)—1923-25—100. (h)—U. S. B. L. S. 1926—100. (j)—Adjusted—1929-31—100. (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1935-39—100. (p)—Polk estimates. (pc)—Per Cent of capacity. (pl)—Preliminary. (s)—Fairchild Index, Dec., 1930—100. (st)—Short tons.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

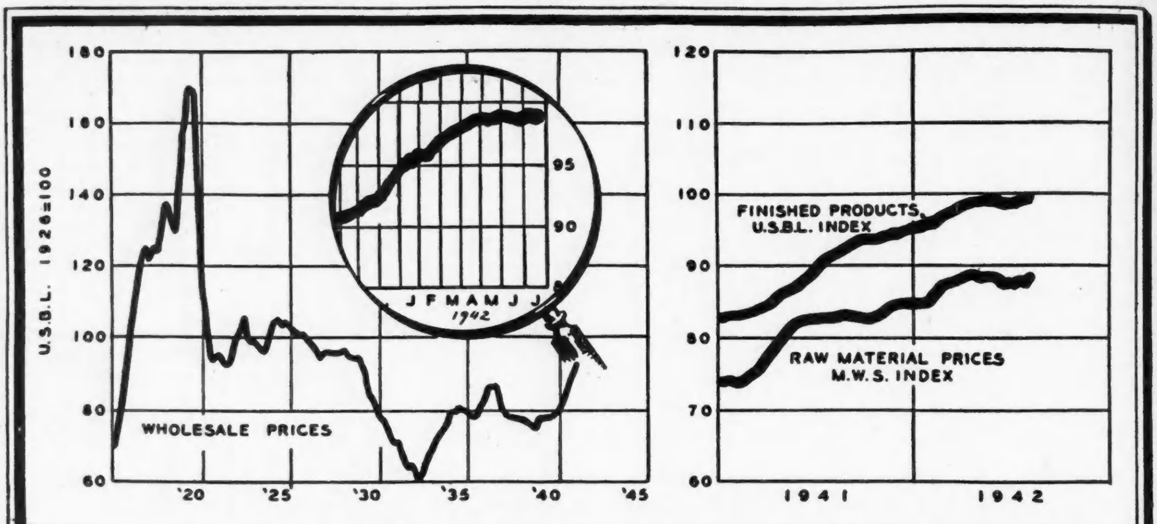
No. of Issues	(1925 Close—100)	1942 Indexes High	Low	Aug. 8	Aug. 15
270	COMBINED AVERAGE	48.6	41.4	44.8	45.6
3	Agricultural Implements	88.0	72.7	84.1	86.4
9	Aircraft (1927 Cl.—100)	172.6	123.8	130.5	137.7
4	Air Lines (1934 Cl.—100)	264.4	178.4	255.9	264.4A
5	Amusements	36.5	27.0	34.9	36.5C
13	Automobile Accessories	79.3	70.4	75.5	75.4
13	Automobiles	9.7	7.1	8.5	8.7
3	Baking (1926 Cl.—100)	6.1	5.0	5.9	6.0
3	Business Machines	108.4	81.7	104.0	104.6
2	Bus Lines (1926 Cl.—100)	64.6	38.2	50.9	50.4
6	Chemicals	156.3	126.3	140.0	141.2
14	Construction	19.6	16.4	18.2	17.6
5	Containers	163.1	138.4	152.0	151.4
8	Copper & Brass	75.1	58.6	61.2	62.6
2	Dairy Products	29.4	25.5	29.0	29.4B
6	Department Stores	16.3	12.4	13.5	14.1
6	Drugs & Toilet Articles	43.5	37.1	41.1	41.7
2	Finance Companies	132.4	99.5	130.6	132.0
7	Food Brands	78.6	60.6	67.9	68.6
2	Food Stores	43.7	32.2	37.9	37.9
4	Furniture	29.1	23.7	28.5	28.9
2	Gold Mining	455.9	315.4	402.9	388.0
6	Investment Trusts	16.5	13.8	15.8	16.1

No. of Issues	(Nov. 14, 1936, Cl.—100)	1942 Indexes High	Low	Aug. 8	Aug. 15
100	HIGH PRICED STOCKS	51.96	43.20	47.27	48.28
100	LOW PRICED STOCKS	38.78	31.66	34.88	35.32
3	Liquor (1932 Cl.—100)	184.9	137.5	180.3	184.9C
8	Machinery	83.8	67.9	72.3	74.3
2	Mail Order	56.1	45.2	54.1	55.4
4	Meat Packing	46.0	29.7	32.8	33.4
9	Metals, non-Ferrous	131.7	100.0	105.8	104.6
3	Paper	11.3	9.1	9.3	9.3
21	Petroleum	74.6	59.8	68.4	71.2
16	Public Utilities	19.1	13.7	13.7r	14.3
3	Radio (1927 Cl.—100)	8.8	5.9	8.6	8.7
7	Railroad Equipment	37.9	28.6	30.2	31.2
16	Railroads	9.9	7.6	8.7	8.9
2	Realty	1.9	1.3	1.5	1.3
2	Shipbuilding	112.0	85.3	88.1	89.5
12	Steel & Iron	65.0	53.1	55.3	55.6
2	Sugar	40.1	26.5	29.0	29.2
2	Sulphur	179.4	137.5	155.0	159.1
3	Telephone & Telegraph	41.1	30.6	37.2	37.5
2	Textiles	34.2	24.4	29.3	28.6
3	Tires & Rubber	12.3	7.9	11.7	12.3A
4	Tobacco	55.3	40.7	51.1	49.5
2	Variety Stores	187.2	147.7	170.6	174.4
19	Unclassified (1941 Cl.—100)	109.9	90.8	99.4	102.6

New HIGHS since: A—1941; B—1940; C—1939. r-New LOW since 1925.

Trend of Commodities

Following the drop in the previous week on the government's unexpectedly large estimate of the coming crop, cotton prices turned firmer last week and made moderate net gains. The trade continues to hold off as far as buying is concerned, and mill participation continues limited. The week-end carried corn into new seasonal lows under liquidation inspired by favorable crop news. Wheat prices at present are holding within relatively narrow limits, but there has been a minor change in sentiment recently and many of the professional operators are now talking less bearishly than a short time ago. Heavy government demand for meat, eggs and dairy products brought price rises in these commodities. Top on hogs was $15.25, a new high since October, 1920. This development is reported to have led Leon Henderson to write Secretary Wickard inquiring about the advisability of putting ceilings on live stock prices. No definite decision, however, as to the immediate declaration of such ceilings appears probable. Butter values have also soared to new high prices for the season, with eggs unchanged to up 10 points. The market for non-ferrous metals remained featureless. Prices held firm and unchanged. Mounting lead stocks may lead to easing restrictions.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August, 1929, equal 100

	Aug. 14	Aug. 7		Aug. 14	Aug. 7
28 Basic Commodities	167.3	167.1	Domestic Agricultural	184.4	183.3
Important Commodities	162.8	163.1	Foodstuffs	187.7	186.6
Domestic Commodities	170.2	169.8	Raw Industrial	153.3	153.7

Commodity Briefs

Cotton. The largest cotton crop since 1937 appears in prospect. According to the Agriculture Department estimate as of August 1 a production of 13,085,000 bales is forecast, or 22 per cent more than the 1941 crop. This was followed by the Commodity Credit Corporation announcing its 1942 cotton loan program. The new loan rate is based on 85 per cent of the parity price as of August 1 this year. The new loan was based at 16.02 cents a pound on 7.8 inch middling. This rate represents a two-cents-a-pound increase over the 1941 rate. As in previous programs, the loan rate will be based on the net weight of cotton, and will vary because of location. Consumption of all cotton in the United States during July is placed at 938,000 bales by the New York Cotton Exchange Service, compared with 966,000 bales for June, and 930,000 bales used in July 1941.

Oils and Fats. According to government reports an increase in the production of domestic fats and oils this year will not entirely offset the decrease in imports and the increased exports by this country. Disappearance of primary oils and fats in 1942 probably will be at least as large as in 1941.

Grain Crops. Agriculture Department forecasts now places total grain production in 1942 larger than in any year except 1920. Their August estimate include 955,172,000 bushels of wheat, 2,754,000,000 bushels of corn, and 1,332,000,000 bushels of oats. The wheat estimate is the largest since the record crop of 1916. The indicated corn crop the highest since 1932.

Eggs. Eggs are selling today at the highest prices in 22 years. In keeping with the price, egg production in June according to the Agriculture Department also set a peak record for that month. In addition the six-month 1942 egg production tops not only past records, but was 16 per cent above the first half of 1941 figures. Eggs brought an average of 29.5 cents a dozen on the nation's farms on July 15.

Coffee. The Government has formulated a plan whereby it is hoped imports will be aided. Its calls for the Commodity Credit Corporation absorbing war-time costs of importing the commodity, thereby averting a squeeze between the ceiling limits and rising shipping costs.

Pepper. Disappearance of black pepper in this country during the past seven months amounted to 16.3 million pounds, compared with 1.6 million pounds for 1941. Stocks on hand July 31, 1942 were only 62.3 million pounds, or slightly less than a normal two years supply. Shortage of this import commodity due to shipping restrictions will develop rapidly in 1943.

THE REVOLUTION IN RAW MATERIALS

(*Continued from page 492*)

to catch up with a world in which the research chemist is King and thus to assume innumerable new forms and characteristics. So we can only briefly touch on a few of the more significant highlights here—first duly noting that you are going to find it increasingly difficult, and often impossible, to determine by glance or feel or smell just what a great variety of products have been made from.

Among the more important metals, the largest relative and absolute expansions of capacity will be in steel, aluminum and magnesium. We shall have a steel capacity more than 40 per cent in excess of what was required to serve the largest peacetime demands in the most active pre-war years. Aluminum-making capacity will have expanded more than five-fold. Magnesium-making capacity will have increased from a very few thousand pounds a year to several hundred thousand pounds. There will have been smaller, but substantial, additions to mine capacity in copper, lead and zinc. Many of the former uses of tin, obtainable only from abroad, will have been permanently shifted to substitutes. Domestically developed alloys for steel will have permanently taken at least part of the market formerly served by such now scarce materials as tungsten and nickel.

Thus the competition of metals with metals—wherever the product is such that alternative choices are open to the buyer—will be keener than ever before, resulting in lower prices and further stimulating research aimed at improved quality or broadened range of uses.

But it will be far more than a matter of metals versus metals; or of metals versus plastics. In a commercial sense, the latter, of course, represent something truly revolutionary—an enormously significant widening in the range of choice among available materials. Plastics not only have an amazing variety of uses—competitive more or less with metals, wood, glass, ceramics, leather and rubber—but, like all true synthetics, differ from "natural" raw materials in that they are "tailor made" to almost innumerable specifications. That's an enormous economic asset. It makes it possible to put the cart before the horse, so to speak. You can start with design of the finished product, then specify the characteristics you want in the plastic "raw material." From time immemorial it was the other way around. You started with the fixed and standard characteristics of the raw material and designed the product within their limitations—metal for this, glass for that, wood for something else.

Then too, through chemical and/or mechanical modifications, some of the oldest natural materials—such as wood and glass—have undergone and are still undergoing their own technical revolutions, vastly multiplying the number of industrial and commercial uses to which they can be put. In various forms these old standbys are now semi-synthetics in that "something new has been added." It's a synthetic binder that gives us laminated safety glass. It's another synthetic binder that, with new methods of moulding under steam and pressure, has opened up a vast new commercial field for plywood. If you saw something made of "Fiberglas"—possibly a bat of home insulation or a theater curtain or a rug or a man's tie—you wouldn't know it was really made of glass unless somebody told you. If one of these days you put your hand against a sheet of flat glass and it "gives" under your touch without breaking, don't start worrying about your eyesight or wondering whether you have had one highball too many. What you'll see will be so.

"Paper" can be synthesized and pressed into materials—going into a host of consumer goods—more durable than the tree from which the original pulp was derived.

Plywood has been on the market some time but only now is ready to go places. It's just two sheets of wood glued together, with the grain of one running opposite to the grain of the other. Up to that point, it was just modified lumber. Chief merit; it wouldn't pull or warp and had much greater structural strength than lumber of equal thickness. Disadvantage: could be used only for interiors, as the glue would not stand up under the weather.

Today's plywood will "stay put" in any weather because a synthetic resin has replaced glue as the binder. But what will really carry this "lumber sandwich" to town is development of a very recent process by which, under steam in a pressure mould, plywood *is "cooked" into any curved form desired and at the same time its strength and durability are hugely increased.* Thus transformed, its possible practical uses—many of them directly competitive with metals—are almost limitless. It's lightweight, actually stronger than most metals of similar thickness, so dense that you would dull the edge of an axe trying to crack it, non-corrosive, waterproof, almost fireproof, non-conductive or heat and cold, it won't splinter, it does not "fatigue" under constant vibration as does metal, and it won't soften or anneal in high ranges of temperature.

In short, here is a brand new answer to a designer's dream—for anything from a bath tub to a bus body, from a speed boat to a typewriter frame, from a refrigerator cabinet to the fuselage and wings of an airplane.

Take note that plywood's new magic key really consists of the heat-pressure-moulding process. That brings us to a more general consideration of very great significance. It is this: The trend of the times is toward—and will continue to be toward—raw materials which, in addition to other desirable characteristics, can be *moulded* into finished or semi-finished product form in a single operation—*eliminating the costly intermediate machining processes which formerly had to be used in fabricating most raw materials, especially metals.* This is a vast step forward toward cheaper goods. Among the more prominent materials suited to the pressure-moulding technique are plastics, plywood, powdered metals and rubber-like synthetics.

It should be obvious that the greatest beneficiary of increased

post-war raw materials supply, of the technological progress in materials and of the increasingly competitive materials prices will be the consumer.

And it is also obvious that, as between the producer of the raw materials and the intermediate fabricator—that is, the manufacturer of the finished goods—the economic advantage will center with the latter. Flexible, diversified manufacturers of finished products will have a wider range of choice of raw materials to work with than ever before—at more competitive prices.

Most raw materials producers—excepting the agricultural wards of the Government—will move out of a price-ceiling market into a buyers' market that will last until the next war—if there is one—and otherwise apparently indefinitely.

Favorable Outlook for Distillers

(Continued from page 504)

end and affected retail profits of the too numerous dealers rather more than profits of the producers. Under war influences a more stable price situation is likely to prevail.

Whatever their personal tastes, there are not many investors left who have moral scruples against liquor securities or who calculate on the possible threat of another venture with Prohibition. The moderate price-earnings ratios and high dividend yields on this group of stocks reflect the low level of general investment confidence now prevailing—plus the fact that until quite recently the industry could be regarded as unseasoned and therefore somewhat unstable as to competitive factors, prices, finances and dividend distributions.

But liquor stocks currently are among the few that are persistently making new highs in the market for the year or longer. This does not seem to be a flash in the pan but a somewhat belated recognition of the unusually favorable underlying factors cited above.

War Remaking Industrial America

(Continued from page 481)

well as in the important field of politics and government. It went into this war in the ascendency with 30 or 40 years of awakening behind it. It will come out of it stronger and more important than ever with its growth tremendously accelerated. It might be remarked here that one has to have a terrific anti-railroad industry complex to be bearish on the securities of Southern Railway, Louisville & Nashville and Atlantic Coast Line. There is something more than a "secular growth" factor in the securities of any railroad, industrial or even utility company which really "serves the South."

Another "certainty" trend is found on the Pacific Coast. Whether it is climate or just happenstance, there has been a spectacular increase in the population of California, and one of the biggest booms in the whole nation at present is taking place in the Pacific Northwest, where big power and aluminum developments are in progress. There is an immense population to exploit through business in California; no more promising "light" metal areas exists anywhere than on the Pacific Coast; cheap electric power is as indigenous to the region as fine fruits; and when this war is over the Orient, the trade of which naturally comes to the Pacific Coast, is going to be America's "co-prosperity sphere," not Japan's. It might be well to bet on the growth possibilities of some of the Pacific Coast corporations, railroads as well as industrials and utilities.

Coming nearer home, Connecticut is one of the New England states which seems to have what it takes to compete with the trend of business southward. The traditional initiative of the Connecticut Yankee seems to have lost nothing in the years. The state still has more than its share of the best mechanics in the world, and the war is producing more by the tens of thousands. The same may be said for even more rapidly growing Maryland. Whether the current spectacular prosperity of Delaware is permanent is open to more question, but that state is a center of the great chemical industry—the technological leader of all the industries. It's a far cry from the discouragement and discontent of defense-neglected New York to Connecticut on the East or to Delaware and Maryland, and to a lesser extent New Jersey, on the South.

Detroiters say that their city got its real start as the automobile leader out of World War I. They confidently think with the fresh enthusiasm of the comparative youth of their great city that World War II will make Henry Ford's metropolis an aircraft and machine tool giant as well as the automotive capital of the world. Detroit, like Connecticut and Western Massachusetts, is great because there is assembled there an immense amount of mechanical ability and genius, and if this war does not do anything else it is going to further glorify the machine and everything mechanical. Watch Detroit, and the securities of the non-mechanical industry corporations which serve her in the post-war years.

The technological consequences of the war should be the subject of a future article which it is perhaps a bit too early to write, and it would be folly to begin to discuss them so near the end of this study. Volumes can, should and will be written on the subject. It must be apparent that (1) the war will stimulate all kinds of mechanical development, (2) that the age of chemical development has just begun, (3) that the art of flying and the business of making of airplanes will be vastly more important factors in our new peace enonomy, and (4) that the mobility of both population and goods over the face of the earth will have to be greatly increased.

The author can hear reader after reader ask why some other important phase of this important matter has been omitted. Well, perhaps this writer has overlooked it. Certainly only a few high spots can be touched on in such limited space, and then again this study, as presented here, is intended to make the reader think, not to do his thinking for him.

19 Billions of New Money

(*Continued from page* 478)

for a general sales tax—but only as *one* logical part of the over-all tax structure and by no means a feasible "cure all" for the inflation threat. The only other alternatives—if the Government is going to finance substantially more than 25 per cent of its war spending out of taxation—would be the elimination of all income tax exemptions and credit for dependents; or a compulsory war-bond savings plan. What is beyond debate, is that higher taxes on a relatively small minority of Federal income taxpayers cannot fill the bill—even if the Government should ruthlessly liquidate the middle and upper income classes by taking from a half to nine-tenths of all income above $3,000.

On the basis of the pending tax bill, under the rates adopted by the House, the Treasury estimates that about $60 billions of income will be reported by those obligated to file returns. In other words, only moderately more than *one-half* of the public's 1942 income will come within sniffing distance of the income tax collector. But from this $60 billions you have to deduct personal exemptions, credits for dependents and other deduuctions which foot up to a grand total—all these are Treasury estimates—of $28.5 billions; so the total taxable personal income becomes $31.5 billions or not importantly more than *one-fourth* of the public's total income.

And now we come to the actual taxes. Out of the $31.5 billions, the tax revenue will approximate $8 billions. In round figures, 20 million people—out of some 54 million gainfully occupied—will make Federal income tax returns; and of these 1.3 million people will pay more than half of the total income tax. That's a heavy tax bill on a minority of the people—but it does not have too much to do with inflation control.

On the face of this situation—and even if the majority of consumers continue to manage their money with reasonable prudence—anybody with something to sell (that is worth the money) will have no difficulty finding buyers. Excepting for previously accumulated inventories of merchants—which are now gradually declining—practically all "hard" goods are out. Most everything else—including food, all kinds of clothing, liquor and many beverages, sweets, amusements and services—are plentiful and will remain relatively so in any event. And it is along these avenues, plus rent, that consumer spending will be done in larger total than ever before—though the "silk shirt" foolishness of 1918-1919, or its equivalent, does not appear to be on the cards.

New Construction Restricted to War Needs

(*Continued from page* 503)

also accounting for an increasing proportion of the business of Crane Co., Holland Furnace Co., and Minneapolis-Honeywell Regulator Co., with the last-named company having direct Government contracts for more than $40,000,000 for Army and Navy equipment, to be delivered in 1942 and 1943.

Operations in the roofing division, particularly in the Eastern section of the country, have been restricted by sharp reduction in delivery of asphalt supplies to the Atlantic seaboard, following the withdrawal of tankers from Atlantic Coast routes. The situation in this respect has become so serious that at least two prominent concerns are reported to have temporarily suspended production. Consequently, notwithstanding large orders, actual and potential, average sales for this building division will reveal sharp contraction for the year. Johns-Manville Corp., producer of various building supplies in addition to roofing materials, is actively participating in the armament program, assuring high operating levels for the year, although profits are likely to exhibit a decline. Although ample war construction and repair business should be available, costs of Flintkote will be increased as a result of the more expensive transportation of asphalt by railroad. National Gypsum and United States Gypsum are well favored by demand for wallboard and other relevant items for defense housing and military plant expansion.

Aided by large requirements for defense housing, military barracks, and increased use in war plant construction, as well as by the unusually heavy demand for shipping boxes and crates, lumber production and shipments are expected to exceed the 1941 totals. Substitution of wood for metal in many phases of construction should also contribute toward enhanced sales of lumber.

Of pertinent interest is the substantial development of pre-fabricated housing during the past year. Shortage of normal housing accommodations in war-boom regions has accorded considerable impetus to such construction, and these structures are being assembled by the thousands in various sections of the country. In the Norfolk, Va., area, over 4,000 of such homes had been completed by mid-August out of a total of 14,100 to be erected. The greater portion of such construction is under Government auspices, although many privately-financed projects have also been undertaken. It is too early to hazard an opinion with respect to the effect of these new types of housing on post-war construction activities, but that it will considerably influence future construction procedure there seems little doubt.

Taxes and Post-War Doubts Weigh Heavily on Steels

(*Continued from page* 501)

if not reduce, labor cost per unit of output. But the importance of labor costs—and of the operating rigidities which American unionism usually manages eventually to impose upon management — is one thing when steel is operating to the actual limit of physical capacity and something else again under "normal conditions" when the industry is lucky to top 80 per cent of capacity and not infrequently drops below 50 per cent of capacity.

It is possible, even probable, that in the long run our unions will "settle down" as have the more mature unions in England and Sweden; and that industry-labor relations, including wages, will be much more stable than now or than in recent years since the New Deal made Labor the fair-haired boy and the Capitalist the forgotten man. But

don't forget that it is efficient, new plant — built since 1929 — that is mainly responsible for restraining unit labor costs. In, say, the decade after the war, it is improbable that improvement in facilities and increase in efficiency can even closely approach that of recent years and of the war period.

In the past the industry has had valid economic reason — Thurman Arnold to the contrary notwithstanding—for adhering to a relatively rigid pricing policy. Despite political pressures, this probably can be maintained after the war, so far as concerns "heavy" steel products. It seems probable, however, that consumer goods' steels more than ever before will have to be sold in a buyers' market, due to competition of other materials. Heretofore, of course, there has been intra-industry competition in "light" steels, but no significant challenge from "outside" materials.

On the whole, it is suggested that the future buyers of steel—especially the manufacturers of finished consumers' durable goods—will be in a more strategic economic position than the sellers of steel, or of any other primary materials.

From the past record it would appear that such consistent dividend-payers as Inland, National and Acme Steel have much in their favor—but, in view of the considerations set forth above, it is indicated that evaluation of the longer range potentialities of *all* steel companies must be approached with both reserve and caution.

Of course, everything—including the uncertainties outlined here—has its price and it may be that present prices of steel shares are more than low enough. We are inclined to think they are; and that, from an intermediate time approach, the "leeway" for market rise is probably greater than that for further decline. But owners of steel shares would do themselves a service by getting very clear in their minds the fact that these equities have always been essentially speculative—and still are.

Balanced Security Portfolios For Today's Needs

(*Continued from page* 483)

siderable progress has been made recently toward a reorganization plan. If the certificates are not completely retired, they should receive par value in new First Mortgage bonds. Interest has been paid since issuance.

Texas & Pacific is controlled by Missouri Pacific, but reorganization has proved unnecessary since earnings have been better than for the rest of the system. Bond interest is currently being earned about 2.2 times.

Gulf, Mobile & Ohio Ref. 4s were issued in the reorganization-merger of 1940. Current earnings are approximately 2.8 times the interest requirements.

Continental Gas & Electric is an important sub-holding company in the United Light & Power system. Interest was covered last year about 1½ times and earnings have been relatively stable.

Electric Power & Light has been reporting favorable earnings recently due to the gains recorded by its principal subsidiary, United Gas. While the system failed to obtain SEC approval early this year for recapitalizing United Gas, this step when finally accomplished should considerably increase the cash income of EL.

N. Y. Dock should benefit by wartime demands for storage facilities. Intrest was earned last year over 1½ times.

Erie new preferred is included in the preferred stock list because, while somewhat unseasoned marketwise due to recent completion of the reorganization, it has outstanding value at current levels in our opinion. While earnings on the new set-up have varied considerably, the ten-year average for 1932-41 is $5.80. This year earnings are expected to approximate $28 a share. The company recently inaugurated dividend payments on the new common stock. The range on the preferred is 44-32¼.

Reading Company is an "old-line" railroad which, while suffering some deterioration in earning power, has maintained dividend payments on the preferred and common stocks. Last year the first preferred dividend was covered over 8 times.

National Power & Light preferred is currently being reduced in amount through an exchange offer for Houston Lighting common stock. In our opinion the dividend is relatively secure; in the 12 months ended April 30, $13.12 a share was earned on a consolidated basis. There is a possibility that in final dissolution of the company (anticipated over the next two or three years) holders of the remaining preferred stock might receive par.

North American is one of the strongest issues in the holding company group. In the 12 months ended March 31, consolidated earnings were equivalent to over 5 times the dividend requirements.

American Locomotive's report for the first half showed $7.25 a share earned on the preferred or about double the dividend requirements, compared with $6.08 last year. It is thought that, after action on the tax bill is completed, the company might develop a recapitalization plan to take care of the $43 arrears. The current dividend is being paid.

Armour & Co. (Ill.) $6 preferred is currently paying the dividend and has arrears amounting to $21. While this is a second-grade issue, it appears to have appreciation possibilities due to the company's improving earnings and the possibility of payments against arrears. Earnings in the last fiscal year slightly exceeded the amount of the arrears.

Atchison, Topeka & Santa Fe has already paid $3.50 a share this year and at least another $1.00 would seem indicated, since earnings for the calendar year 1942 are estimated around $20 or about double those of last year.

American Light & Traction, while a holding company, has paid regular dividends of $1.20 for some years and this is substantially covered by recent earnings. The company is planning to liquidate after it disposes of its San Antonio subsidiary (two buyers are competing for the property) and liquidating values in dissolution are estimated to be substantially above the current price of 11.

Clark Equipment has had an ex-

cellent growth record and is selling at only about 5 times indicated earnings for this year.

Fairbanks, Morse & Co. seems undervalued at current prices considering the fact that sales increased 86% in the first half and that the stock is selling currently at only about 7 times earnings, figured on the new tax basis.

Paramount Pictures appears to have appreciation possibilities based on current gains in moving picture attendance and anticipated further gains in earnings. The company enjoys a relatively favorable tax position.

Lower 1942 Merchandising Earnings Indicated

(*Continued from page* 496)

variety chains which are favored by excellent merchandise positions may be mentioned May Department Store Co., McCrory Stores Corp., Melville Shoe Corp., J. C. Penney Co., and F. W. Woolworth Co. The last named concern also boasts a record of continuous dividends since 1912.

In contrast to the progress registered by the variety and grocery organizations, the record of the big mail order concerns in recent months has been far from impressive. Sears, Roebuck & Co. reported a decrease of over 15% in July, 1942, sales compared with those of the similar 1941 month, while those of Montgomery Ward & Co. were 12% lower in comparable periods. Spiegel, Inc., another of the mail order companies, registered a drop of 37% in July, 1942, sales, while for the first seven months of the year sales of this organization were 16% under those for the corresponding 1941 period.

The comparatively poor exhibit of these organizations is attributed not only to the inordinately heavy consumer purchases of a year ago, but also, at least to a considerable degree, to shortages of "hard" goods resulting from diversion of metals to war purposes, and to credit restrictions. Rationing of tires and tubes, an important source of revenue, has likewise adversely affected sales. Because of inability to deliver certain merchandise already ordered, it is said, some of the leading chains have been compelled to return millions of dollars to customers.

Inventories of Montgomery Ward & Co. and of Sears, Roebuck & Co. were unusually large at the end of the 1941 fiscal year, but it is probable that a considerable portion of these have already found their way into consumer channels. Cash holdings of the latter company were substantial as of January 31, 1942, and extra disbursements may be continued on these shares.

In addition to the sales decrease cause above mentioned, alteration in the selling arrangements of Spiegel, Inc., was also held responsible for the precipitate drop in sales of this company during recent months. With a larger proportion of business now conducted on a cash basis, liquidation of the large receivables, which amounted to $30,622,000, out of total assets of $48,276,000, as of December 31, 1941, should be expedited.

Price ceilings are also exercising a repressive effect upon profit margins. The OPA regulations of April 28, 1942, provide that no retailer, manufacturer or wholesaler may sell any products at a price higher than the maximum charged during March, 1942. Exceptions to this ruling were few in number. The manner in which various mercantile organizations may be affected will depend largely upon the degree of success attending pricing policies as well as turnover of merchandise.

Adverting again to the inventory situation, while overall supplies of merchandise are generally believed adequate, it is alleged that numerous inequities exist with respect to distribution of goods. In this connection, Joseph L. Wiener, deputy director of the division of civilian supply of the WPB, asserted several weeks ago that "some form of balance will have to be achieved soon in the retail inventory picture. Perhaps that can be done by the good judgment and foresight of the retail trade itself. Perhaps it will require that the Government step in with some form of inventory control which will enable the retail trade to achieve balanced inventories." Mr. Wiener added that any inventory control plan which is adopted "will not call for the dumping of stocks," but will be designed to limit inventories by lines and departments rather than on a storewide basis. The plan should also take account of seasonal factors and normal stock-sales relationships.

In conclusion, there is little question but that 1942 average earnings for the merchandising organizations will range somewhat under those for 1941. The tax burden will be heavier, but many companies are favored by liberal excess profits tax exemptions, which will avert precipitate profit declines.

Moreover, strong cash positions of companies such as Best & Co., W. T. Grant Co., S. H. Kress & Co., and F. W. Woolworth Co. provide reasonable assurance that dividends will be maintained at least at rates recently prevailing. Also consumer income will continue to rise unless or until the trend is halted by higher personal taxes than those in prospect for this year or by a compulsory war-bond savings plan. Meanwhile all reactions in demand for goods of which there are still adequate supplies must be considered temporary.

6 Stocks with Good Earnings Despite Higher Taxes

(*Continued from page* 505)

National Cash Register Company has advanced this year from 11 to 17 (at the moment it is fractionally lower), in recognition of last year's substantial improvement in earnings. In the 1920's the company was a leader in its field and $5.12 was earned in 1929. During the 1930's the company was unable to regain this earnings level: it made $2.67 in 1937 and suffered a moderate relapse in the three years following, but in 1941 earnings more than doubled, reaching $2.84. In the first half of 1942, despite accrual of taxes on an 85-45 basis, share earnings of 96 cents topped last year's figure of 81 cents. Apparently the company's annual earnings under the present tax schedule would be somewhere around the $2 level, although almost $3 was earned in the 12 months ended June 30. On this assumption the stock is currently selling around 8 times earnings and yields about 7½%—not bad for a company with a 60-year record of leadership in its line. At present, of course, the company is

entirely on war work, making a number of important war materials on the "secret list," but it is still making a few business machines and selling accumulated stocks and reconditioned units.

Capitalization consists of $6,000,000 debenture 2½s privately held, and 1,628,000 shares of stock.

Doehler Die Casting is one of the world's largest producers of die castings, its products being used in the automotive and many other industries. In March the company operated on a 70% war basis and it was expected that this would rise to 90% or more later. The company's earnings record, while somewhat irregular, has been excellent in relation to the current price of the stock (around 22). Profits have improved steadily in recent years, reaching $4.37 last year. For the first half of 1942, $1.46 was reported using the 90-45 tax basis, which indicates that "for the duration" earnings may be stabilized at close to $3 a share. The dividend record has been irregular but last year $1 in cash and 6% in stock were paid, while this year $1 was paid in the first six months. Assuming that another $1 is forthcoming (without any stock dividend) the yield would approximate 9%.

Since the company's products are used in a wide variety of articles for which there will be a post-war demand—such as cars, radios, vacuum cleaners, washing machines and electric refrigerators—the company's transition to a peace economy would not seem difficult.

The company has no funded debt, its sole capitalization being 297,252 shares. The current ratio at the end of last year was 1.66 to 1, which tends to explain the year-end payment in stock rather than cash.

Clark Equipment is an interesting "growth" stock, earnings having improved from a deficit of $2.62 in 1932 to profits of $8.67 a share last year. The stock is currently selling around 32, or less than 4 times last year's earnings and about 5 times the indicated earnings for this year. In the first half, with taxes based on the rates recommended by the House Committee, earnings were $3.37, only moderately below the $3.85 reported last year.

The June balance sheet also revealed a very strong financial position: cash amounted to nearly $9,000,000 and current assets were over $16,000,000 as compared with Serial Notes of $1,650,000 and current liabilities of $9,733,000.

Dividends have been paid in each year since 1932, the 1940-41 rate being $3.25; $1.50 was paid in the first half of this year. The yield should therefore be in the neighborhood of 10%.

The company produces axles, wheels, transmissions, brakes and similar automotive parts as well as industrial trucks and special material for handling equipment, all of which are now being used in the defense program.

Fairbanks Morse is currently selling around 30, compared with this year's approximate price range of 37-28 and last year's 46-32. In comparison with similar issues, the stock would appear therefore to be in a buying range at current levels. In the six months ended June 30, $2.11 was earned compared with $2.31 last year, despite the accrual of $7,214,000 Federal taxes (conforming to the new tax bill) compared with only $1,720,000 last year. The company was able to carry this huge burden because sales increased some 86% over last year.

Based on the indicated annual earnings rate of $4.25 under present tax proposals, the stock is currently selling at only about 7 times earnings—a conservative ratio as compared with other industrial companies. Last year $2.50 was paid in dividends; this year payments to September 1 aggregate $1.75. Assuming that only another 25 cents is paid (as in the third quarter) the yield at current price would still be nearly 7%.

Capitalization consists of $3,158,000 debenture 4/56 ($500,000 was called for redemption June 1 this year) and 599,596 shares of stock. The current ratio last December was 2.27 to 1.

The company has enlarged its plant considerably, due to the great

demand for Diesel engines and other power generating equipment; the order backlog is the largest in its history. The cost of all 1941 development and experimental work, both for regular lines and war uses, was charged against earnings. In addition to its Diesel line, the company makes the "Fairbanks Scale" and a diversified line of machinery and equipment, the record dating back some 51 years.

Answers to Inquiries

(*Continued from page* 508)

Shell Union Oil Co.

Holding 200 shares of Shell Union Oil at 23, I am puzzled about its prospects for appreciation and income. Will you please let me have your views? Should I continue to hold? I know the company is beset by taxes, curtailment of civilian use of gasoline and fuel oil, but I have read that progress is being made in the production of aviation gas and synthetic rubber. Are earnings likely to hold up so that last year's $1 dividend will be maintained?—B. M. E., Cleveland, Ohio.

Shell Union Oil Co. is a well integrated oil company engaging in all divisions of the petroleum industry. The financial position is sound as the company's total debt of $109,253,000 was incurred at very low interest rates, and represents considerably less than half depreciated property value. Working capital is $84,000,000 and the ratio of current assets to liabilities is as 2.7 is to 1. The company is not too heavily beset by Federal taxes as we figure an estimated tax credit of roughly $1 before the excess profits rate impinges.

Earnings for the first six months, after what appear to be liberal reserves for taxes and contingencies, were 55 cents against 60 cents in 1941, which was a rather unusual showing. A dividend of 40 cents a share was paid on July 15 and if earnings hold up the company should be able to duplicate last year's December dividend of 60 cents. The president recently said that the company is doing everything possible to build up its fuel oil stock position for the winter irrespective of cost. Shell's output of high octane aviation gasoline has been greatly increased in the last few months as the company was the first to produce a high octane blending synthetic with special anti-knock qualities. We are inclined to buy and hold the stock for income, and some appreciation in a more favorable market setting.

For Profit and Income

(*Continued from page* 507)

an expected $1.65 a share on G.E. stock this year under a 90% excess profits tax and $1.80 under 87½% excess profits tax. This 2½% difference would make 9% difference in the net income per share. Thus each change in the tax proposals makes a materially different picture on the earnings position of stocks.

American Airlines Looks to the Future

Stock of American Airlines holds in the high 30s, despite some uncertainty as to current income and a year-end dividend. At the end of 1941, the company paid $1.50 a share and net income for the year was $3.93 a year. This stock holds its market position because of the bright future for air transportation. In time, it is expected to exceed any past earning power by a wide margin.

Gauging the Market's Next Move

(*Continued from page* 475)

The advance has developed and has been maintained without benefit of good news and despite a most gloomy news environment. As far as it goes—and we do not say it is conclusive—such action in such an external setting has always been characteristic of the initial phases of a bull market. Bull and bear markets have always begun when the surface factors and the statistics of *current* earnings trends did not seem to offer justification.

We think there is a considerably better than even chance that the averages, discounting all probable 1942 adversities, made their lows in April for this year or longer. If that is so, what alternatives are open now. We think they are that either (1) the market will "tread water" within, say, the upper two-thirds of the price range that has prevailed since the end of April in which case a minority of selective issues will move to new highs; or (2) the averages will climb to new highs, with broadened participation, when the war news turns importantly for the better or the consensus of opinion begins to anticipate such a turn.

As I See It!

(*Continued from page* 473)

and chance defeat or a stalemate. It is well known that the Japanese tried to prevent Hitler from moving against Russia last year because they believed the risk was too great. As it turned out, the Japs were right for Hitler's time table has been set back one whole year.

Both Germany and Japan have their eyes on India. Nippon particularly has been working and waiting a long time. And while Japan is expecting to profit by the political crisis in India, she is not relying on it entirely, but has a well equipped army tuned to a high pitch in Burma with well organized supply lines as far back as Indo-China and Hainan. Revolt culminating from the policy of passive resistance in India could thoroughly disorganize the United Nations' forces there, enabling Japan to achieve her objectives at a very small price.

Another reason for believing that Japan is unlikely to attack Russia lies in the belief that the Japanese recognize as well as the Germans do that a Nazi victory would make Germany a potential rival far more dangerous to her than a weak Russia—and the Japs want their war machine at top strength when they meet the rival collaborator.

As far as Russia is concerned, it can be assumed that the Russian bear would welcome a respite to lick his wounds, to reorganize and build up his strength if he is pushed back to the Urals and even await his opportunity in a struggle between the two great Axis powers.

For the possibilities are that, due to the time element, Germany will not attempt to subjugate the Russians but will push through to oil and to India—her main objective.

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